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FOSTERING INTEGRATION OF COUNTRIES IN TRANSITION IN CENTRAL AND EASTERN EUROPE IN THE WORLD ECONOMY AND THE IMPLICATIONS FOR THE DEVELOPING COUNTRIES

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ABBREVIATIONS

AD	Anti-dumping
CAP	Common Agricultural Policy of the European Union
CEC	Central European countries
CEECT	Central and Eastern European countries in transition
CEPU	Central European Payments Union
CIS	Commonwealth of Independent States
CMEA	Council for Mutual Economic Assistance
COCOM	Coordinating Committee on Export Controls
CSFR	Czech and Slovak Federal Republic
DC	developing country
DME	developed market economy
EBRD	European Bank for Reconstruction and Development
ECA	export credit agency
ECE	Economic Commission for Europe
EFTA	European Free Trade Association
EU	European Union
FDI	foreign direct investment
FSU	former Soviet Union
FTA	free trade area
GATT	General Agreement on Tariffs and Trade
HS	Harmonized Commodity Description and Coding System (for international tariff classification)
IBRD	International Bank for Reconstruction and Development
IMF	International Monetary Fund
MNE	multinational enterprise
NERA	National Economic Research Associates, London
ODA	official development assistance
QR	quantitative restriction
TP	Trade Partnership Agreement
TQ	tariff quota

COUNTRY GROUPS

Visegrad countries:	Czech Republic, Hungary, Poland, Slovakia
CEC:	Bulgaria, Czech Republic, Hungary, Poland, Romania, Slovakia
Baltic States:	Estonia, Latvia, Lithuania
FSU republics:	Armenia, Azerbaijan, Belarus, Georgia, Kazakhstan, Kyrgyzstan, Moldova, Russian Federation, Tajikistan, Turkmenistan, Ukraine, Uzbekistan and the Baltic States.
CEECT:	CEC and FSU republics together.

NOTE ON DATA SOURCES

The data in this report come from a variety of sources. In general, data on the Central and Eastern European countries are not reliable, and differ considerably from one source to another. For trade data, I have relied as far as possible on the UN COMTRADE databank, where both the "reporter country" and the "partner country" figures for each trade flow are available. However, there were a number of problems with this, and the regional and global totals are subject to a greater margin of error than normal, though this should not distort broad trends. Where no source of data is supplied, the data derive from this bank. For more recent data, and data broken down by product groups, I was able to use the EU Commission's COMEXT databank for flows between the CEECT and the EU. The foreign investment data are based on balance-of-payments figures (cash basis), unless otherwise described. For the CEECT countries, they are mainly based on ECE sources. For other countries, they are based on the World Debt Tables of the World Bank.

I. SUMMARY

1. 400 million persons with a combined GDP of about $US 2000 billion, around half of that of the European Union, cannot be an easy task. Prior to the successive revolutions of 1989 to 1991, the Central and Eastern European Countries in Transition (CEECT) kept their distance from the global market place. Ideologically, if not technologically, they felt more at ease trading among themselves or in the company of those small but avowedly socialist developing countries - Cuba, Mongolia, Viet Nam, the Democratic People's Republic of Korea - and those countries they classed as "friendly", including India, Egypt and the Syrian Arab Republic. Former Yugoslavia was a major trading partner of the CEECT, as was, despite vicissitudes in diplomatic relations, China. Now the picture has changed radically. The CEECT are in a headlong rush to join the world trading system as full members.

2. Since 1989, the CEECT, particularly the countries of Central Europe (CEC), driven by recession at home and the loss of their traditional eastern CMEA markets and helped by massive devaluations, have attacked the markets of the Western market economies. The growth rates of Polish, Czechoslovak and Hungarian exports in those markets, in particular that of the European Union, have been impressive, running to over 20 per cent per year. On the whole, these inroads have been made on the loss of previously exported products from those countries to the West, largely processed foodstuffs, chemicals, metals, textiles, clothing and footwear. There is evidence of the beginnings of a similar redirection of trade with metals and chemicals among the former Soviet republics, in particular the Baltic states.

3. Trade within the old CMEA will eventually recover, but the traditional pattern of trade whereby the countries of Central Europe supplied mainly low-quality manufactures to the former Soviet Union in return for energy and raw materials will never regain its earlier importance. Even when the markets in the former Soviet Union recover, the new freedom of CEECT enterprises (including those in the former Soviet republics) to pick and choose their suppliers and their target markets implies that market principles, that is price and quality factors, will be paramount. This means that both the developed market economies (DMEs) and the developing countries will gain a much greater share of CEECT markets and, on the other hand, become much more important as markets for CEECT output.

4. Under these circumstances, it is not surprising that producers around the world are becoming concerned about whether they will be squeezed out of their existing markets, both domestic and export. Spanish and Portuguese clothing manufacturers are demanding tough action to keep out imports from Poland and Hungary. German steelmen now demand subsidies to protect them against "unfair" competition from the Czech Republic and Slovakia. French farmers are demonstrating against modest consignments of beef from Poland. Politicians complain of "social" dumping, in effect the exploitation by the CEECT of their competitive labour costs.

5. The European Union has reacted to these concerns by signing individual agreements with the Central European countries which are designed as much to preempt demands for improved access as for the trumpeted opening of EU markets to imports from the CEC. Limiting imports from the CEC will inevitably restrict the growth of EU exports to fast-growing CEC markets, since it will have negative repercussions on CEC growth (or, in accounting terms, because the balance of payments of each country or region must balance), but the political imperative of assuaging the industrial pressure groups appears to have taken precedence.

6. This report makes a number of recommendations on how the West can help the integration of the CEECT into the world trading system. Many of these recommendations concern technical assistance for institutions financing or otherwise assisting exports, but the most important concern continued improvements in Eastern access to Western markets, the avoidance of "contingent" protection (anti-dumping, anti-subsidy and safeguards measures) and the elimination of the COCOM rules which restrict the access of the CEECT to Western technology.

7. In the new circumstances it is not surprising that the developing countries have also expressed worries about the CEECT invading their export markets. Developing countries have focused on the increased problems to industrialisation and export diversification which they foresee as the result of aggressive competition from the CEECT. There is some cause for concern here, but the picture is more complex. Competition between developing country exports and CEECT exports will take place in a number of arenas, including within the CEECT and the developing countries themselves, but, for geographical reasons, the main thrust of CEECT export growth has and will continue to be directed to Western Europe.

8. In an examination of those products where the Europe Agreements give improved access to the EU market, very few manufactured products where the CEC have been (or will be) given improved access are significant in terms of developing country exports to the EU. (Textiles and clothing and agricultural products are excluded, since they are subject to special rules - see below.) Where there might be problems with existing exports, they will mostly concern chemicals, wood products and metals. The developing countries most affected will be the newly industrializing countries (NICs) of South-East Asia and Latin America and the other emerging economies of South-East Asia.

9. The Europe Agreements with the CEC and, presumably, future agreements with the FSU, by limiting access in "sensitive" areas, will help push the CEECT towards new or embryonic export industries. But there are other factors at work. One concerns the levels of education and training in the CEECT, which are higher than those in most Western European countries but are not yet reflected in the export mix. The other is based on an examination of the patterns of trade of countries with similar geographic and structural characteristics and factor endowments. The various studies of current and future levels of East-West trade all point to huge increases in the volume of such trade, though the rate of growth will depend on the rate at which per capita output levels in the East catch up with those in the West. Even at today's levels of per capita output, "comparator country" studies suggest that, if East-West trade had developed in

the absence of the policy of CMEA autarky, it would have reached levels some five times higher than those prior to the transition process.

10. The studies also suggest, crucially for the third world, that the CEECT should be able to shift the composition of manufactured exports from the traditional chemicals, metals, textiles, clothing and footwear to a more skill-intensive and technologically-based export mix, in particular engineering products of all sorts, where the value-added is higher and trade barriers - at least currently - are lower. This shift will initially be seen in the CEC, but, while exports of the FSU countries will continue to be dominated by energy goods and raw materials, it is likely that the share of manufactures will increase, not least where the conversion of defence industries to civil production enables these countries to exploit the technologies that have been developed for military purposes. Again it will be the NICs and other emerging "high- or middle-tech" exporters, including the petro-chemical exporters of North Africa and the Middle East, who will have to face the new competition.

11. However the export structure of the CEECT will take a number of years to adapt. In the meantime, certain specific factors will play a role. As far as textiles and clothing are concerned, competition in world markets has, in any event, largely been replaced by trade regulated by the Multifibre Agreement (MFA). This will be phased out with the implementation of the Uruguay Round Agreements and the elimination of the quotas on CEC exports to the EU will, following the Europe Agreements, be accelerated. The developing country exporters of textiles and clothing to the EU will thus be put at a temporary disadvantage. As regards agriculture, negotiations by the CEECT have done nothing significant to ease CAP restrictions on the treatment of their agricultural exports. However, the implementation of the Uruguay Round Agreements will lead to a gradual (and partial) relaxation of "Community preference" and a reduction of the volumes of excess EU produce 'dumped' on the world markets. On balance, the developing countries will gain from the downgrading of the CAP (and Western subsidies to agriculture in general). The developing countries will marginally gain further with improved access for the CEECT on EU markets and, hence, the reduced downward pressure on world prices from their net exports on the world markets.

12. What has been said about competition between the second and third worlds in EU markets - despite the transformations, this crude classification is still useful - can be approximately generalised to the first world market as a whole. About half of total CEECT exports (including inter-CEECT) now go to the European Union, and approaching two-thirds to Western Europe as a whole. Most of the EFTA countries have joined the Community, and their trade with the East is now subject to the Europe Agreements and any new agreements with the ex-Soviet republics, as well as the Common Agricultural Policy, the Multifibre Agreement and the EU regimes for contingent protection. These devices designed to manage trade are mirrored in most of the other industrial countries. The details are different. The overall result is likely to be similar. One way whereby the developed countries could significantly improve access to their markets for both the CEECT and developing-country exporters is simply by relaxing the rules of origin of their preferential import schemes to allow "cumulation" between the CEECT and the other beneficiaries.

13. There will also be some sharpening of competition for developing-country exporters in the third world itself. It is sometimes argued that the CEECT are particularly advantaged in third world markets because of their specialisation in "intermediate technology", though, in that case, they would be competing with the industrial countries and the NICs. Most South-South trade is in energy goods, especially oil and oil products, and raw materials. Here, the threat is that when the Russian Federation and the other former Soviet Union countries become more efficient prospectors and exploiters of their natural resources, they will exert downward pressure on world prices. At the same time, however, accelerated growth in the CEECT will raise demand for these products. The net result on supply and demand balances is not clear.

14. However, concentration on competition from the CEECT in third countries should not obscure the overwhelming gains to developing countries that will come from the opening up of the markets in the CEECT themselves. In the former socialist countries, imports, whether consumer goods or inputs into enterprises, were often assigned on the basis of intergovernmental deals driven by political criteria with scant regard to cost-effectiveness. Relative to trade between the developed market economies and the third world, the level of East-South trade has been meagre, and largely confined to a small number of developing countries.

15. Imports from the developing countries by Western European countries with a similar population and GDP per capita are four or five times those of the CEECT. Moreover, reform and the integration of the CEECT into the world economy should set those countries on accelerated growth paths, provided that the West, particularly the EU, is sufficiently open to Eastern exports of agricultural goods and manufactures. On the basis of the EU experience, by the time those countries reach levels of per capita income equivalent to the present European Union average, they will be importing eight to nine times the present volumes of merchandise from the developing countries. Obviously the comparison is very rough, particularly since it takes no account of factor endowments, but, nevertheless, it does suggest that gains from transition and growth in the CEECT are likely to overshadow problems of competition between the East and the South on third markets.

16. The handmaiden of trade is investment. Increasingly, foreign direct investment (FDI) is designed to service one part of the global market, which is what transnational companies see as their bailiwick. But the global market is, since 1989, a bigger market - in area hugely bigger and in population by over 400 million persons. This vast extension must first and foremost generate new investment, rather than divert it from the developing countries. Despite the apparent wealth of new opportunities, FDI flows into the CEECT have been modest, particularly those reaching beyond the EU's next-door neighbours, Poland, the Czech Republic, Slovakia and Hungary. Problems of political and economic uncertainty, unclear regulations and property rights and bureaucratic tangles can explain why Western firms (and the NICs, who have shown some interest) have been so slow to move. But FDI will expand rapidly once the appropriate conditions are established. Commitments to investing in the Russian Federation's energy sector have surged. What delays their implementation is the absence of a regulatory framework.

17. If FDI is mainly driven by regional market opportunities, then it is crucial that trade barriers remain low throughout the region. The CEC appreciate the need to keep their tariff and non-tariff barriers low. There has been some backsliding, not least in response to foreign investors who want tariff protection in their immediate market, though not elsewhere in the region - an unfortunate example of the fallacy of composition. In general, however, the Visegrad countries (Poland, the Czech Republic, Slovakia and Hungary) are committed to low tariffs and (almost) the removal of non-tariff barriers. The problems among the FSU republics lie less on the import side than in export taxes and quotas. Obviously these can have a severe effect on FDI. This report argues that the West should encourage regional free-trade initiatives, such as the Central European Free Trade Area, but also stresses the importance of trading areas which bridge the divide between the CEECT and the industrial or developing world, such as the proposed Black Sea Economic Co-operation area.

18. While the major effect of the transition of the CEECT will be to enlarge total FDI flows, it remains inevitable that, at the margin, some diversion from the developing countries will take place. Because of the expansion of the total market and locational factors which are generally against servicing third world markets with second world production or vice versa, diversion will be limited. The report suggests that it should be limited by strict adherence to, or if required, further development of the World Bank FDI guidelines to ban, or at least restrict, the competitive bidding-up of investment incentives, such as tax holidays and management inducements.

19. With foreign investment so valuable in development, it is crucial that the links between the CEECT and the developing countries also have a major FDI dimension. The report makes a number of recommendations about how Governments and international organisations could promote this. It would involve reinvigorating the close investment-cum-trade relationships, in particular joint ventures of various forms, between the former CMEA countries and their third world allies, but extended to the developing world as a whole. CEECT generalised system of preference schemes can play some role, not least symbolic, but it would be wrong to see it as a one-way street. Already a number of the NICs are investing in the CEECT. The Republic of Korea, for example, is investing heavily in Kazakhstan (cars, trucks, television sets, home electronics). A lot has been written about the natural affinities in technology between the CEECT and the developing countries, usually in terms of the transfer of technology from the former to the latter. It can work the other way round. Some of the technology of the NICs and other industrialising countries may be particularly suitable for the CEECT, which in many sectors have to start almost from scratch. The CEECT should more actively frame trade and investment agreements with the developing countries to encourage joint ventures and FDI in both directions. Meanwhile the West could facilitate these links by technical assistance in a number of areas, and even by promoting tripartite schemes involving Western technical assistance and enterprises from the CEECT and from the third world. It could also allow procurement in the CEECT for development assistance works in the developing countries and vice versa.

20. One worry is that of developing regionalism, in this case particularly centred in Western Europe. The CEC are now firmly ensconced in the Community

sphere, and the EU has now accepted that the CEC and the Baltic States, will be members in the foreseeable future. In order that these countries can reach the level of per capita output and macro-economic stability that would make them viable members of the EU, they require further access to Western, in particular EU, markets, part of which is envisaged in the Europe Agreements. It is important that further market opening be achieved through multilateral liberalisation rather than new preferential agreements if the developing countries are not to experience trade diversion. The same is true of further market access for the FSU republics, which, indeed, require such access for the successful completion of their transition to a market economy.

21. When the CEC join the Community, they will bring with them old and new threats to Community producers, if not of today's "sensitive" products, then of tomorrow's. The danger is that this could lead the EU - then augmented by the new members from EFTA as well as the CEC - to turn inward in a new bout of protectionism. This implies a dire threat for all the developing countries, whatever their stage of development, particularly if it coincides with a new protectionist regionalism engendered by the extension of the North American Free Trade Agreement to some of the Central or South American States. If the potential positive sum game of the transition process is to be realised and shared in by the developing countries, the West must avoid the temptation to accommodate the "burden" of new imports from the East by erecting further barriers against the South.

22. It is important to clarify what this report does not cover. It excludes almost all discussion of official development assistance, of the role of world financial markets in the transition process, of debt issues and of labour and migration. It treats Yugoslavia as a developing country rather than one in transition and all but ignores Albania altogether. More space is given to discussing the CEC than the FSU States, partly because the immediate problems in the FSU are so much more "political", partly because it is much clearer what is happening and is likely to happen in the CEC and partly simply because of the greater availability of statistics. Among the FSU States, the Russian Federation is given much more attention than, say, Tajikistan, with the larger republics and the Baltic States falling somewhere in between.

23. It is also important to acknowledge that lumping the former socialist Central and Eastern European countries into groupings such as the CEECT, the CEC or the FSU republics may hide the enormous differences in the situations of different countries within these groupings. However, in a report covering as broad a spectrum of issues as this one, and where the situations in individual countries are rapidly evolving and not adequately captured by the available statistical data or by anecdotal evidence, I have generally had to limit the analysis to broad generalisations covering widely-defined sets of countries. This in no ways suggests that I am unaware of the important differences in the present circumstances and future outlooks of the 21 countries covered by this report.

II. AN OVERVIEW OF THE PRESENT SITUATION

A. Trade and investment

1. Emerging trade flows

24. The CEECT have all experienced deep recessions since they displaced central planning within a command economy and embarked upon a process of systemic reform, both political and economic. The extent to which these reforms have already had some success varies but, in all cases, they have brought economic disruption to already distorted patterns of production and trade. This has led to massive reductions in output and trade volumes. The most comprehensive estimates of the extent of the falls in output, with breakdowns by sector and components of demand, are given in ECE [1993]. ECE estimates, primarily based on national data, of annual changes in import and export volumes are given in appendix table 1, at least for those CEECT for which relatively reliable estimates are feasible.

25. The picture differs from country to country but the shortfalls caused by recession and the disruption, and then liquidation, of the CMEA trading and settlements system are in all cases huge relative to traditional Western cyclical swings. This remains the case even if both the output and trade data may overstate the scale of the collapse.[1]

26. But all has not been negative. **The countries of Central Europe** (CEC) (Poland, the Czech Republic, Slovakia, Romania and Bulgaria) have succeeded in redirecting their trade from their principle trading partners in the FSU towards the developed market economies (DMEs) and, in particular, to the European Union. This was promoted by three factors: firstly, the huge falls in imports by the FSU which began as early as 1988; secondly, the collapse of intra-CMEA trade in 1991 which was closely associated with the shift to hard currency pricing; not only were there inadequate hard currency reserves to sustain earlier levels of trade, but when the CMEA members agreed to switch to hard currency trading at world market prices, there was no longer a price or payments incentive to buy from other CMEA countries; thirdly, the search for new markets, closely related to the sharp decline in output in the CEC, from which some countries (Poland, possibly Hungary and the former CSFR) are only now showing signs of recovery, while in others output seems to be still falling (Bulgaria, Romania) [see ECE 1993].

27. Strong demand generally in Western Europe clearly helped the redirection of trade. The concessions offered to the Visegrad countries and Bulgaria in the form of GSP treatment and additional concessions over a limited range of agricultural goods may have made some marginal contribution.

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[1]The output data do not fully capture the growth of small, consumer-oriented manufacturing and services, while the trade data do not reflect the rapid growth of smuggling, while volume figures are further distorted by large changes in relative prices.

28. While there are some severe data problems caused by the decentralisation of trade decisions and conversion rates for the transferable rouble [see Rodrik 1992a, 10-15], the extent of this redirection in the years 1990 and 1991 was undoubtedly quite dramatic. For those countries for which national data are available, the Visegrad countries (Poland, Hungary and the former CSFR), Romania and the FSU, appendix tables 2 to 6 show, to the extent that data are available, how the geographical pattern of trade has changed. Instead of supplying half of Poland's imports as in 1985, the CEECT share fell to less than a quarter in 1991. The CEECT took over half Poland's exports in 1985 but under 17 per cent in 1991. These changes were largely offset by major increases in trade with the European Union. The share of Polish imports sourced in the EU has gone from a fifth to a half since 1985. The share of exports going to the Community has risen from under a quarter to over a half. Though the redirection of trade was already taking place before 1989, the radical changes have come about since 1989.

29. *Mutatis mutandis* similar changes have taken place in the trade of Hungary, the former CSFR and Romania. Appendix table 6 shows trends in the dollar value of trade between the CEECT and the DMEs up to 1991. These figures (like all the trade data available) are in nominal terms and so are affected by changes in prices and changes in the dollar. However,there were no major swings in the dollar's effective rate, except for a six per cent fall in 1990 (which would go a little way to explaining the sharp increases in dollar-denominated trade in that year). The figures do demonstrate the sharp rises in the share of DME trade with Poland, the former CSFR and Hungary, though the shares are still very small.

30. In the case of Romania, the aftermath of the Ceaucescu regime disrupted trade, though the DME share rose (see appendix table 4). In the case of Bulgaria, whose pattern of trade can only be surmised from partner country statistics, there was no increase in its share of DME imports, and recession and payments problems meant that its share of DME exports fell abruptly in 1990. FSU exports picked up as a share of DME imports in 1990 and 1991, though they remain well below the level achieved in the mid-1980s. As a market for DME exports, the FSU fell sharply with the political and economic turmoil of 1990.

31. Growth in manufactured exports to the European Union was particularly strong (see table 1). All the CEECT countries participated, excepting Romania.

32. Recession in Western Europe and slow recovery in the United States meant that the high growth rates in those markets became more difficult to sustain after 1991. To some extent CEECT were hurt by contingent protection - mostly EU anti-dumping actions - but their exports were also affected by falling demand in the West. Domestic problems in the FSU also seriously exacerbated supply difficulties. Data for the global distribution of CEECT trade in 1992 are not generally available, but as regards trade with the European Union, the pattern can be seen through Eurostat statistics. Appendix tables, 7 to 13, show growth rates of exports, classified at the NACE two-digit level, of the CEC (with the Czech Republic and Slovakia as one) and the FSU.

Table 1

CEECT exports of manufactures to the European Union (billion ECUs, current prices)			
	1988	1991	Average annual growth (%)
Poland	2.2	4.1	22.3
former CSFR	1.7	3.3	23.1
Hungary	1.4	2.4	20.4
Bulgaria	0.3	0.5	17.0
Romania	1.1	0.9	-8.3
FSU	3.6	4.8	10.3
CEECT	10.4	16.0	15.4

Source: Eurostat, COMTRADE database.

33. These tables show a deceleration in the growth of Polish exports to the EU from an annual rate of 32.3 per cent in 1989 to 1991 to a rate of 20.3 per cent in 1992. Still, by any standards this export growth in 1992 must be considered a major achievement. True, it is measured in nominal terms, but the GDP deflator in the EU in 1992 rose only 4.6 per cent, while world trade prices for manufactures in US dollars rose 3.6 per cent. In the case of the former CSFR, the rate of export growth to the EU actually rose from 28.5 per cent on average over the years 1989 to 1991 to 38.7 per cent in 1992. For Bulgaria and Romania (where there had been particular supply problems in 1990 and 1991), it also rose sharply, while for Hungary there was a modest reduction. In the case of the FSU, exports to the EU in nominal terms actually declined by 2.5 per cent in 1992. Given the extent of the domestic supply disruptions, a much bigger drop would not have been surprising.

34. The **recession in the CEC economies** has been explained in a number of different ways, including the erosion of the traditional export markets within the Eastern bloc, the tough disinflationary credit policies associated with the transition, and delayed or seemingly perverse supply side responses to the reform programmes themselves. Since the question arises as to whether the rapid penetration of Western markets is likely to be reversed once the CEECT have their own economic houses in order, it is important to look at the apparent causes of the downturn in domestic activity and pressures to increase exports to the West.

35. Oblath and Tarr [1992] attribute much of the blame to the elimination of the huge implicit Soviet subsidies which arose from paying more than world prices for CEC manufactured exports and charging less than world prices for exports of fuels and raw materials. Rodrik [1992b] finds that over 60 percent of the output reductions in Hungary and the former CSFR, and over 30 per cent of that of Poland, can be attributed to the dissolution of the CMEA through the move to

world prices for traded goods, the elimination of Soviet implicit subsidies, and thirdly, the loss of Soviet markets. It is important to distinguish the first two effects from the third, since the former are presumably permanent, while the latter will be largely reversed when, eventually, the economies of the FSU republics recover. In fact, the market-loss effect only accounted for a minor part - under 10 per cent in each case - of the cumulative trade shock for each of the three CEC economies. This suggests that very little of the earlier geographical pattern of trade will be restored simply through economic recovery in the FSU.

36. Another important factor is the product composition of trade with the West as compared with that with the FSU. Has the reorientation of trade meant that CEC exporters have simply switched the goods previously sold in the East to Western markets - that is, the overall product composition of exports is broadly unchanged - or do the increased exports to the West consist of different products? Appendix tables 7 to 13 give the product composition of CEECT exports to the EC according to the NACE system of classification. They also show growth rates for individual two-digit commodity groups. A rough and synthetic measure of the degree to which the CEECT expanded existing exports to the EU rather than penetrating new product markets is given by correlating the value changes in exports over the period 1989 to 1991 with those of the period 1991 to 1992. The results appeared to indicate that where there had been sharp increase in exports -the Visegrad countries and Bulgaria - the increased penetration was built on the existing composition of exports.[2] I will return to these tables when discussing the future commodity composition of East-West trade in section 4.

37. Rodrik [1992a] compared the product mix of exports to the East and to the west of Hungary and Poland in the mid-1980s and in 1990 and concludes that the data show large differences in composition between the two areas. For example, "machinery has constituted almost half of Hungarian exports to the rouble area, but less than 15 per cent of exports to the West. Exports of raw materials have been twice as important as exports to the East. In Poland, electro-engineering products constitute three-quarters of exports to the East, but less than a third of exports to the West" (p.17). Then Rodrik concurred that the expansion of exports to the West in 1990 was mainly achieved through expanding quantities of earlier exports rather than switching export goods from the East to the West.

38. It is dangerous to draw firm conclusions from only one year's statistics, particularly when that year was the first year of radical reform. Yet these results do suggest that Poland and Hungary were able to expand exports to the West through firstly devaluing their currencies, secondly eliminating licenses and other controls on exports, and thirdly increase managerial incentives to expand exports - weak domestic demand, high inventories and consent to retain a proportion of hard currency earnings. No doubt they were marginally helped by the elimination of the EU "specific" (that is specific to the exporting country) QRs on these countries' exports (except in the "sensitive" areas of agriculture, steel and textiles) and strong expansion of domestic demand in the European Union

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[2]The correlation coefficients were as follows: Poland 0.94, the former CSFR 0.92, Hungary 0.54, Bulgaria 0.90, Romania 0.09, the FSU 0.65 and the CEECT as a whole, 0.83.

steel and textiles) and strong expansion of domestic demand in the European Union and, particularly, Germany.

39. Trade between the successor States of **the former Soviet Union** and other former CMEA states as well as with the market economies, has nose-dived. The ECE estimates that by 1992 the FSU States imported only half as much in US dollar terms from outside the area as they did in 1990 [ECE 1993]. Shortages of hard currency and rouble non-convertibility, an inappropriate export mix and the breakdown of contractual relations among enterprises meant that the switch - at least on the same scale - to Western markets which the CEC had managed so successfully was not open to the FSU republics.

40. But the main explanations for the precipitous declines in **trade flows between the ex-CMEA member States** have been the acute economic declines and political conflicts. The EBRD argues that "the production decline preceded and was a major cause of the trade contraction (although the latter has subsequently reinforced the former)" [EBRD, 1992, p. 18]. Initially this affected intra-CMEA trade more than inter-republic trade - with the FSU gradually cutting exports to the CEC to preserve supplies to domestic markets from 1988 onwards, and later cutting them in order to preserve hard currency balances. In mid-1991 the negative attitude towards barter trade with the CEC, taken by the Soviet authorities at the end of 1990 as a measure against tax evasion, was changed under pressure from Soviet enterprises.

41. Official Soviet data show that total imports and exports in dollar terms in 1991 were more than halved compared with 1990 (see appendix table 5). However, the share of imports deriving from the other CMEA countries did not fall as sharply or that coming from the DMEs rise as sharply as was the case from the CEC themselves. The shift in the geographic pattern of exports was more pronounced, with a distinct rise in the share - though not the overall value - going to the DMEs. Unlike the situation in the Visegrad countries, the collapse of trade in Romania, Bulgaria and the FSU republics has been aggravated by the foreign exchange liquidity crisis. Indeed, Rosati [1992] considers that that crisis triggered the collapse, though it would be possible to argue that supply-side problems, brought about by the breakdown of central planning, were the underlying cause. In any event, there is clearly a short-term foreign exchange crisis, which, at the time of writing (October 1993), has only been partially resolved.

42. There is less information available about recent trends in the trade of the **individual CIS member states**. Developments are conditioned by the fact that their economies are highly dependent on each other and, because of its overwhelming position as the largest economy and dominant market, on the situation in the Russian Federation (see table 2). The rate of inter-republic trade to output in 1990 was almost 60 per cent for Turkmenistan, Armenia and Moldova; over 40 per cent for Georgia, Tajikistan, Uzbekistan, Kazakhstan, Ukraine, Kyrgyzstan, Azerbaijan and Belarus; and about 20 per cent for Russia. The corresponding figures for intra-EC trade at the same time were 40 per cent for Belgium, Holland and Ireland; and 10 to 20 per cent for Denmark, France, Germany, Greece, Italy and United Kingdom [Dioumoulen, 1992, p. 14-15]. With the break-up of the Soviet Union, the other successor States were to suffer from the political uncertainties

and increasing economic disruptions in the largest successor State, the Russian Federation, but also from the inflationary impact of their own pro-market reforms.

Table 2

Russian Federation share in CIS trade, 1991, million roubles			
	Exports	**Imports**	**Total**
Intra-CIS trade	79 668	71 210	150 879
Russian Federation	64 236	44 663	108 899
Share of Federation (%)	80.6	63.0	72.0

Source: Dioumoulen, 1992, p.36.

43. The external trade of the republics other than the Russian Federation, both with each other and beyond, is depressed by lack of the new financial, banking and legal systems required to replace those previously provided centrally by Moscow. In addition, the same subsidies that so distorted trade between the Soviet Union and the CE economies have also been damaging to inter-republic trade. The EBRD estimates that the "subsidies from Russia were worth around 10 percent of GNP for Armenia, Belarus, Estonia and Latvia, and 15-20 per cent of GNP for Georgia and Moldova. Smaller, though significant, implicit price subsidies were accruing to the other republics (except Turkmenistan)" [EBRD, 1993, 21]. These subsidies were savagely cut in mid-1991 by price reforms.

44. In order to maintain basic supplies for domestic consumers, the republics resorted to increasing use of controls over exports, including inter-republic exports, even before the dissolution of the Soviet Union. A profusion of bilateral agreements intended to ensure a minimum level of trade in key products and encourage trade in general has achieved little. Export commitments have frequently not been fulfilled, as output continues to crumble or enterprises, with their new autonomy, find more attractive market opportunities or decide to stockpile in anticipation of rising prices. Since 1991, the Central Bank of Russia has provided substantial credits to clear trade deficits, but the system of correspondent accounts has created new bureaucratic barriers to trade [EBRD 1992, 21]. The EBRD Annual Report also details the trade barriers which arise from the pre-payment process for imports, as well as the difficulties in obtaining working capital.

45. In 1991, Soviet imports from Central Europe, measured in US dollars, dropped by 63 per cent and from the OECD by 33 per cent, while inter-republic trade fell 15-20 per cent. The following year it fell a further 30 per cent.

Table 3

FSU: Ratio of trade with countries outside FSU to countries within FSU, 1988-1991				
	Exports		Imports	
	1988	**1991**	**1988**	**1991**
Estonia	n.a.	n.a.	n.a.	n.a.
Latvia	0.08	0.04	0.14	0.15
Lithuania	0.08	0.03	0.12	0.11
Moldova	0.05	0.04	0.22	0.17
Belarus	0.09	0.08	0.26	0.31
Ukraine	0.20	0.22a	0.23	0.22a
Armenia	0.02	0.03a	0.21	0.33a
Azerbaijan	0.07	0.06	0.30	0.25
Georgia	0.07	0.02	0.24	0.13
Kazakhstan	0.12	0.10	0.13	0.15
Tajikistan	0.17	0.10	0.16	0.10
Turkmenistan	0.10	0.16	0.17	0.23
Uzbekistan	0.19	0.13	0.16b	0.22
a: 1990.				

Source: EBRD (1993), Quarterly Economic Review, April, London.

46. No clear pattern of trends in trade shares emerges, especially given the uncertainties surrounding the data. However, these data only go up to 1990 or 1991, and will not reflect the full impact of supply disruptions, let alone the breakdown of Union-wide central planning.

47. For the **Baltic States**, the major new trading partners are the Scandinavian economies, and in particular Finland, which appears to be overtaking the Russian Federation as the principal destination of Estonian exports. Bank of Estonia data suggest that the share of exports going beyond the ex-CMEA countries rose from 3 per cent in 1991 to 26 per cent in 1993. Neither Latvia nor Lithuania is likely to have achieved a comparable redirection of its exports.

48. The important **conclusions** to be derived from this discussion are that, with help from lower exchange rates and under pressure from the collapse of the Soviet market and demand at home, the CEC have been able to expand significantly their traditional exports to the DMEs, in particular the European Union. However this expansion has been mostly in previously established products - textiles and clothing, chemicals and steel.

49. The redirection of the exports of other CMEA countries towards the outside world has been less dramatic but nonetheless significant. It is most striking in the case of the Russian Federation, and has probably been important among the Baltic States, but is less obvious among the other FSU States as a group. This is hardly surprising, in view of the difficulties of establishing trading links with inadequate or non-existent payments and credit mechanisms, with major transportation problems, particularly across neighbouring states, and, not least, with export controls. Indeed, to a large extent, the factors responsible for the breakdown of intra-CMEA trade have impeded the expansion of trade with the West.

2. Emerging investment flows

50. Of the three main sources of external finance for reconstruction, namely official financing, capital markets and foreign direct investment (FDI), the last has been the least productive since the reforms were initiated. This section is concerned with flows of FDI. To date these have made a minor contribution to the supply of financial resources from overseas.

51. The problems with the low quality and inefficient use (particularly at world prices, see, for example Hare and Hughes, 1992] of the existing capital stock, let alone its sheer physical inadequacy, are summarised in EBRD [1993]. A number of estimates of the total financial inflows required to meet various goals are available. Clearly they are not strictly comparable, since they are based on different assumptions about the supply of domestic savings, as well as alternative policy targets. However they do give some perception of the inadequacy of the three-year totals in table 4.

52. In order to double GDP per capita over 10 years in the CEC, Begg *et al.* [1990] calculate an annual investment requirement of $US 103 to 226 billion, while Collins and Rodrik put it at $US 344 billion net. To reach the current average labour productivity in France and Germany over 10 years, Fitoussi and Phelps [1990] estimate $US 110 billion net. To get the Visegrad countries to the average EC GDP per head in 1990 within 10 to 15 years, Gros and Steinherr [1991] estimate $US 126 billion net. To double GDP per capita in the FSU over 10 years, Collins and Rodrik estimate that $US 571 billion is required, and to reach average 1990 EC GDP per head, according to Gros and Steinherr $US 687 billion is needed.

Table 4

Flows of foreign finance into CEECT, 1990-1992 ($US billion)				
	Official commitments[a]	Financial market loans[b]	Net FDI flows[b]	Total
Poland	15.146	0.014	0.390[c]	15.550
Fm. CSFR	4.235	0.756	1.834	6.825
Hungary	6.573	3.811	3.421	13.807
Bulgaria	1.773	-	0.102	1.875
Romania	3.479	-	0.092[d]	3.571
Baltic States	0.328	e	e	0.328
CE nes	4.319	-	-	4.319
Total above	35.853	4.581	5.839	46.273
FSU	59.851	-	200	60.851
Total	95.703	4.581	6.039	107.124

a: For CE, commitments are cumulative from beginning of QI 1990 to end of QII 1992, for ex-USSR to November 1992. Converted from Ecu at Ecu 1.2 = US$1. b: on a balance-of-payments (cash) basis, 1990-1992. c: excl. October-December 1992. d: excl. December 1992. e: in FSU.

Source: ECE 1993.

53. Against these figures, average annual flows between 1990 and 1992 of some $US 15 billion to the CEC and $US 20 billion to the FSU are clearly quite inadequate. What is more, the vast bulk of these flows took the form of official development assistance - though the actual flows were certainly significantly smaller than the commitments reported in the table. Given the present budgetary problems affecting almost all the DMEs (with the notable exception of Japan) and a common sense of "aid fatigue", it is questionable if the levels of ODA that have been promised over the past few years can be counted on in the future.

54. Given the apparent breadth of opportunities available in the CEECT, the size of the FDI flows seems tragically small. The geographical proximity of at least CEC producers to the Western European markets, the high levels of education and technical skills in most CEECT, the low cost of labour, in many countries the large domestic market and in some cases, especially the FSU, the wealth of natural resources are all important plus factors.

55. Opportunities for FDI in the CEECT have not suddenly appeared. After years in which FDI in the former CMEA countries was discouraged by a host of regulations limiting the nature of the activity and complicating the repatriation of profits, in the 1970s and the 1980s, in response to inadequate domestic savings, the shortage of foreign exchange and, perhaps most important of all, the lack of technological and managerial know-how, the CEECT gradually

liberalised the conditions on FDI and extended tax and other incentives. Even the Soviet Union in 1987, in the more relaxed climate of perestroika, allowed foreign capital in joint enterprises for the first time. Impressed by the success of the special economic zones in China and recognising that integration into the world economy needs to take place at the enterprise level, the Soviet Government set out to emulate them. These special zones are now coming on-stream and offering attractive terms to foreign investors.

Table 5

FDI flows, 1990-1992

		Net flows of FDI, ($m)	Number of projects
Poland	1990	88	2799
	1991	117	4796
	1992	185[a]	10100
former CSFR	1990	188	1600
	1991	592	4000
	1992	1054	5995
Hungary	1990	311	5693
	1991	1459	9117
	1992	1471	13000
Bulgaria	1990	4	140
	1991	56	900
	1992	42	1200
Romania	1990	18	1501
	1991	37	8022
	1992	73[b]	20684
FSU	1990	..	2905
	1991	200	3920
	1992	..	15292

a: January-September. b: January-November.

Source ECE (1993). In some cases figures for 1992 are ECE secretariat estimates.

56. But more generally, one might have expected that, throughout the region, the dismantling of central controls and the shift to a market price system more familiar to foreign investors and the new welcoming attitude, together with the many new opportunities, would have led to a surge in FDI. Many new forms of business structure are now available. Joint ventures with firms in the private sector are encouraged in all the CEECT. But increasingly the option of a wholly-owned branch or subsidiary is available. Enterprises can be acquired through privatisation programmes in most sectors where such programmes are under way. The necessary legal and institutional frameworks are gradually being established, with the Visegrad countries in the vanguard. At least for the CEC, the parameters of integration into the world trading economy are now clearer, with the new Europe Agreements and agreements with the EFTA countries.

57. Indeed, as is clear from table 5, FDI inflows have been considerably greater in the Visegrad countries than elsewhere in the region. Most of the projects have been fairly small-scale. In 1990 the average CEC project attracted FDI of $US 41,000. This rose to $US 84,000 in 1991 and fell back to $US 55,000 in 1992. Of course there have been some very large investments - Volkswagen ASG in the former CSFR ($US 6.6 billion), Fiat in Poland ($US 2 billion), General Motors in Hungary ($US 289 million) and Pilkington in Poland ($US 140 million) - but most have been in small rather than large or even medium-sized enterprises. Anecdotal evidence suggests that quite a large number of so-called FDI projects are designed for consumption purposes. For example, the joint venture may be set up merely to facilitate the purchase of a foreign car without tax, after which the enterprise ceases to function. Even where the investment project is valid, it is often a small "hobby" venture by a group of expatriates, often linked to local partners by family ties.

58. The geographical origin of investors at the end of 1990 is indicated in table 6. The European Union and EFTA are responsible for the lion's share, particularly in the Visegrad countries. These figures are based on commitments rather than disbursements, as are the figures in the following table, which indicates the breakdown among sectors in the CEECT.

59. Among the FSU projects, about half have been within the Russian Federation. This is a relatively small share, given the economic weight of the Federation in the FSU. It clearly results from the major deterrent effect of the political uncertainties. Among the other FSU republics, Estonia is by far the greatest beneficiary from FDI, with 3,762 projects out of an FSU total of 19,212 in 1991 and 1992. In this case its geographical position, relative political stability and traditional links to the Nordic countries are the major factors. The other Baltic States were also major destinations for FDI, both benefitting from considerably more projects than Ukraine or Belarus.

60. The source of FDI is clearly strongly influenced by geographic proximity, historical links of various sorts, including the role of expatriates, and the strategies of the investing firms. The strength of investment in Hungary and the Czech Republic reflects a search for cheaper sources of labour, very largely by German firms.

61. The small share of the FDI stock owned by the developing countries is hardly surprising. The relatively high figures for Romania and the FSU are partly explicable by investments by the OPEC countries. Some of these involved energy projects, but the majority were small-scale and involved "natural" as opposed to "legal" persons among both local and foreign partners. In mid-1992, the Syrian Arab Republic was the leading developing country investor, with 1,199 projects, followed by Lebanon (648 projects) and Jordan (466 projects). On average, foreign participation amounted to only $US 7,000.

62. CEECT FDI in the region appears to be mainly small-scale and often involves expatriate foreign partners, who are frequently linked to the local partners through family ties. There are difficulties with data on small-scale FDI projects within the CEECT, but there are indications that Polish investment is particularly strong in Belarus and Ukraine, where it is behind only that of the

United States, Germany and Canada. One large-scale project which may be an indicator of future trends is the purchase by ATEX (Russian Federation) of a 30 per cent stake in Ikarus, the Hungarian bus manufacturer. Without this participation and a smaller participation by CEIC of Canada, the company might have gone bankrupt and deprived the FSU republics of their traditional supplier of buses.

Table 6

FDI: source by major country group, stock at end 1990, percentages

	EC	EFTA	USA/ Canada	Other DMEs	DC[a]	CEECT	Unknown	Total
By number of projects								
	59	22	9	2	1	2	4	100
Poland	43	38	5	-	-	2	9	100
former CSFR	41	37	8	1	2	2	9	100
Hungary	32	18	4	-	-	-	45	100
Bulgaria	38	6	7	14	28	6	-	100
Romania	34	23	15	4	10	9	6	100
FSU								
By foreign capital								
Poland	54	26	9	3	1	1	6	100
former CSFR	41	14	-	-	-	13	32	100
Hungary	30	32	11	-	7	1	18	100
Bulgaria	na	na	na	na	na	na	na	100
Romania	58	6	13	7	13	3	-	100
FSU	34	22	14	3	7	12	8	100

a: developing countries

Source: ECE 1992[a]

63. Table 7 shows the sectoral distribution of FDI at the end of 1990. The low share of FDI directed towards the primary sector is particularly surprising in the case of the FSU, given its wealth of oil, gas and other natural resources. The explanation is presumably the long delays that have been experienced by transnational resource companies in arranging joint ventures in Russia and the other former Soviet republics. Of course, in 1990 the regime for FDI in these sectors was still not codified. The oil and gas law, the continental shelf law and the concession and production sharing law were on the agenda of Parliament in September 1993 and were blocked by the subsequent events.

64. In the FSU, the prospective share of FDI in the primary sector has surged recently. By the beginning of 1993, $US 85 billion - to be spread over a period of 25 to 40 years - had been committed by foreign companies to investments in the natural resource sectors of the Russian Federation and Central Asia (ECE 1993a). Of the 39 projects, 22 are in the Russian Federation and 8 in Kazakhstan. United States companies will participate in 14 mineral resource

development projects and United Kingdom firms in 10. The bulk of the projects deal with oil and gas prospecting and extraction. They should result in an increase in oil production in the FSU of over 130 million tons within 5 to 15 years, compared with the peak production of 624 million tons in 1988.

65. Perhaps more surprising is the strength of FDI in the services sector in the former CSFR and Hungary. This is predominantly the outcome of investments in financial, telecommunications and passenger airline and related services.

Table 7

FDI by sector, end 1990, percentages

	Bulgaria	fm CSFR	Hungary	Poland	FSU
By number of projects					
Primary	.	4	1	4	2
Secondary	68	32	40	73	50
Tertiary	13	64	59	22	48
Unknown	19	.	.	.	.
Total	100	100	100	100	100
By value					
Primary	na	8	.	10	3
Secondary	na	65	59	67	61
Tertiary	na	28	41	23	36
Unknown	na	.	.	.	1
Total	100	100	100	100	100

Source: ECE: 1992a.

66. In the former CSFR, transport goods, mostly cars and buses and their components, and chemicals have accounted for the greater part of FDI. In Hungary, FDI has been more evenly distributed. Manufacturing, food and tobacco and engineering products have each accounted for 28 per cent, oil refining and chemicals for 21 per cent and basic metals and metal products for 14 per cent. In Poland, on the basis of numbers of joint ventures and foreign-owned companies, mining and manufacturing account for 49 per cent of FDI and retail trade for 21 per cent. In Romania, as far as one can gather, FDI has been concentrated in food and "light" industries.

67. There are of course many legal and institutional barriers which help explain why FDI has not been stronger:

Unstable and bureaucratic regulatory framework, including uncertainties over property rights;

Economic infrastructural problems including inadequate transport and telecommunications facilities;

Undeveloped financial markets, including lack of capital markets;

Political instability.

68. A survey of 200 "top" Swiss companies undertaken by the Economic Commission for Europe ranked the obstacles according to their importance [ECE 1992a]. For the CEECT as a whole, at the top of the ranking were "poor economic conditions", "insufficient legal guarantees", "lack of precision in regulations", "lack of financial guarantees from local banks and partners", "lack of qualified managers", "inadequate transport and communication", "political instability" and "inability to repatriate funds and profits". For the individual CEECT, the ranking did not change much. Interestingly the greatest obstacle to FDI in Hungary was reported as lack of qualified managers. This, with insufficient legal guarantees, jointly headed the poll for the Russian Federation. I will return to these issues and what can be done about them later on.

69. One particular area that needs special consideration in the framing of policies to attract FDI is **the conversion of defence industries** in the CEECT. These have accounted for large shares of output and employment in the Russian Federation, Ukraine and the CEC. In the FSU, the defence sector employed some 12 million persons, of whom 9 million in Russia and 1½ million in Ukraine. It accounted for 21.5 per cent of industrial employment in the FSU and 24.9 per cent in Russia. The weight of defence in the CE economies is not as high but it is estimated to have contributed 3 per cent of industrial production in the former CSFR and 2.5 per cent in both Poland and Hungary [ECE 1992b). The rapid fall in military expenditures has been an important factor in the recession in all the CEECT, exacerbated in the case of the CEC through the sharp decline in their exports of armaments, as well as machinery and equipment, for the military complexes of the FSU. In Hungary, for example, four-fifths of the output of the defence industries used to be exported to the FSU.

70. So far, the level of FDI into conversion industries, as elsewhere, has been modest. However, there is a particular urgency in these industries because of the threat of the closure of existing research and development institutions, both military and civilian, and the dispersal of skilled technicians. Considerable resources are needed, particularly where conversion involves new products and technologies different to those employed for military purposes (as opposed to adapting military goods to civilian needs). In some cases the financial costs are increased by an essential environmental clean-up [see ECE 1992b]. There is a strong case for greater and timely involvement by DME Governments, international organisations and the development banks in the conversion process. I will return to this issue in section B.2.

3. CEECT policy measures

71. After the historic events of 1989, the CEC Governments introduced reforms, some more rapidly than others, which have changed the nature of their trading system with the outside world, including their former trading partners in the CMEA, and accelerated the process of integration into the world economy. Detailed considerations of the advances made in the transition process in each CEECT is beyond the scope of this report, but clearly decisions over issues such as the appropriate degree and timing of moves toward convertibility are closely related to strict trade policy questions. Poland and Hungary make interesting contrasts.

72. The reforms in trade policy were partly the inevitable consequence of the breakdown of the traditional pattern of trade with the FSU and the other former CMEA countries. But they were also motivated by decisions to speed the process of transition to a market economy. In Poland, a "big bang" was thought necessary. In contrast in Hungary the goal was to press more vigorously with the process of liberalisation which had begun some years earlier.

73. In the process of transition from a centralised command economy to a market economy, a freely convertible currency (at least for current account transactions), a realistic exchange rate and a decentralised and decontrolled regime as regards imports (including the elimination of quotas and license requirements) will subject domestic producers to foreign competition. The "imported" price system can then supply the signals for the allocation of resources both between domestic production and imports and within the domestic economy. Competition from the world market can largely substitute for internal competition among domestic producers. Of course this will only succeed if domestic prices are liberalised and come to reflect the relative costs of production. In particular, subsidies must be largely phased out. Poland and Hungary have gone a long way in implementing these reforms, and their experience has been the subject of considerable attention in studies of the transition process. They illustrate the two different approaches, i.e. the "big bang" versus incrementalism.

74. Poland was the first of the countries of Eastern Europe to introduce internal convertibility. It did so along with a number of radical measures (price liberalisation, the elimination of export subsidies, etc.) in its "big bang" of 1 January 1990. At the same time, the right to engage in foreign trade was extended to all with no need for authorisation. The exchange rate was initially tied to the US dollar on "big bang". It was subsequently subjected to a crawling peg regime and has now been fixed against a basket of five currencies. Over the three years, both formal devaluations and crawling depreciation have maintained the competitiveness of Polish exports, despite some periods of very rapid inflation.

75. Hungary's approach to convertibility, like its approach to the whole gamut of reforms, has been incremental. Imports have been largely if gradually liberalised and the forint is generally convertible for domestic enterprises involved in foreign trade. Convertibility has even been extended to some capital transactions involving direct and portfolio investments abroad.

76. In the other CEC, current account convertibility for residents has been established, though a scheme of foreign exchange rationing is practiced in Romania. Different exchange rate regimes operate. The Czech and Slovak korunas are pegged to a basket of five currencies, while the forint is pegged to a basket of 50 per cent US dollars and 50 per cent Ecus. The Polish zloty is managed through a crawling peg to a five-currency basket. The Bulgarian lev and Romanian leu are in "managed" floats.

77. The exchange rate regimes operating in the FSU vary considerably. The Baltic currencies are either floating (Latvia and Lithuania) or fixed to the deutschemark under a currency board (Estonia). In all three there is internal current account convertibility, with limited convertibility for capital transactions. The other FSU countries have also established their own currencies. The Russian Federation has a floating exchange rate.

78. Convertibility, a realistic exchange rate, unrestricted trade and domestic price liberalisation are not in themselves sufficient to import the international price structure. A further condition for the transmission of appropriate price signals is a vector of tariffs and non-tariff barriers (NTBs) which do not distort the relative prices of tradeable goods and services. This implies that tariffs on imports should be low and uniform, and non-tariff barriers should be eliminated. This aspect of the transition process has received less attention. On the other hand, effective anti-dumping and safeguard measures should prevent coercive and price-distorting action from abroad.

(a) Trade policies

79. Individual CEECT **trade policies** in the conventional sense of tariff and non-tariff barriers to imports and taxes or other barriers to exports are discussed in annex B. This section merely summarises the salient points. However trade agreements among and between the CEECT and the outside world are discussed in section 6.

80. There has been a rapid reduction in import and export barriers, including tariffs and non-tariff barriers, export taxes and quotas, by the CEC since 1990, though clearly some have moved faster than others. The general aim has been to import world price relatives and to some extent provide the goods that were lacking due to the recession and production disruptions associated with the transition.

81. Since then there has been some backsliding, in particular in Poland and Hungary. It can be argued that the initial liberality was intended as an experiment to identify those sectors that could stand up to international competition unaided, and, that done, it was clear that certain potentially competitive sectors would require infant industry protection. In some cases, however, it seems that the pressure of producers, or in the case of foreign investors, potential producers has resulted in significantly higher tariff barriers.

(b) FDI policy

82. Aware of the rôle that **direct foreign investment** must assume in the restructuring of their economies, the CEECT have done much to establish a welcoming and attractive environment for foreign investors. Most CEECT now offer tax incentives and allow unrestrained repatriation of profits. However there is still much to be done in simplifying bureaucratic procedures and clarifying the regulations concerning FDI, establishing property rights, particularly over land ownership, defining environmental obligations, and indemnifying against nationalisation or confiscation.

83. This section cannot list all the statutory conditions covering FDI in the 21 different CEECT. In table 8 some of the essential features of the laws covering FDI are given. More details are available in ECE [1992c], with regular updates in the ECE publication East-West Investment.

Table 8

Synopsis of laws on foreign direct investment

Country	Institution	Law/regulation	Salient features
Belarus	State Committee for Foreign Economic Ties	Law "On foreign investments.." of 14/11/91	Allows 100% foreign ownership exc. in financial institutions; guarantees repatriation of income; Guarantees against nationalisation and confiscation
Bulgaria	Council of Ministers and Bulgarian National Bank	Law for the Economic Activity of Foreign Persons and the Protection of Foreign Investments of 16/1/92	FDI allowed in all sectors; permission required in some sectors incl. armaments, banking, insurance, mining. Repatriation of profits and capital. Guarantees against nationalisation.
fm CSFR	Federal Agency for Foreign Property Participation	Enterprise with Foreign Property Participation Act of 19 April 1990 (amended Act 173 of 1988)	No consent required exc. for state-owned enterprises. No restrictions on repatriation of profits.
Estonia	State body appointed by govt., Bank of Estonia	Law on Foreign Investments of 11/10/1991	National treatment, except where sector closed to FDI. Guarantees against nationalisation.
Hungary	Investment and Trade Promotion Agency	Act No. 6 on the Modification of Act No. 24 of 1988 on the Investment of Foreigners in Hungary, 29/12/90	Automatic approval for all FDI. Full rights to repatriate profits. Tax incentives for important investments. Investors wanting to acquire enterprises or their assets must consult with State Property Agency
		Amendment of 1/1/91	100% foreign ownership allowed and no limits on repatriation of after-tax profits
Kazakhstan	Ministry for Foreign Economic Relations	Law on Foreign Investments, effective 17/1/91	Only reserved sector is armaments. Tax exemptions for 5 years and 50% reductions for following 5 years in certain sectors
Latvia	The Council of Ministers	Law on Foreign Investments of 5/11/91	Foreign investors may form companies without local partner. Broadly national treatment

Lithuania	Ministry of the Economy	Law on Foreign Investments of 29/12/90	No sectoral restrictions. Tax exemptions and deductions for joint ventures with foreign capital. No limits on profit repatriation, except those with tax exemption must pay 8% tax
Poland	Ministry of Ownership Transformation	Law on Companies with Foreign Participation of 14/5/91	Approval only required for sensitive areas of acquisition of enterprise. Limited tax incentives, no restrictions of repatriation, guaranteed compensation for appropriation
Romania	Romanian Development Agency	Foreign Investment Law of 29/3/91	No restrictions on ownership, but approval of RDA required. 3 - 5 year tax holidays in certain sectors. Restrictions on repatriation of local currency earnings. Guarantees against expropriation
Russian Federation	Ministry of Foreign Economic Relations	Law on Foreign Investments of 4/7/91	No sectoral restrictions, national treatment, guarantees against expropriation. Post-tax profits may be repatriated
Ukraine	Ministry of Foreign Economic Relations	Law on Protection of Foreign Investment of 10/10/91	Guarantees right to transfer of re-invest profits. Compensation for requisitioning. Areas open to FDI to be determined by Council of Ministers
Uzbekistan	Ministry of Finance	Law on Foreign Investments of 14/6/91	National treatment. Areas open to FDI to be determined by law. Free repatriation of profits. Guarantees against requisition

Source: ECE 1992a.

84. The CEECT have signed bilateral investment treaties with large numbers of countries, mostly DMEs, to avoid double-taxation. The former CSFR has signed 13, Hungary 17, Poland 16, USSR 14, Romania 20 and Bulgaria 11.

85. Several CEECT countries do not offer tax incentives to FDI: the Russian Federation, the Czech Republic and Slovakia and, for all practical purposes, Belarus, Poland and Bulgaria. On the other hand. Hungary, Romania, Ukraine, Moldova, most central Asian republics and the Baltic States offer sometimes considerable inducements in the form of five to ten year tax holidays and reductions in profits tax, as well as often trying to steer FDI into particular areas consistent with their industrial policies [EBRD, 1993].

86. As the legal-regulatory situation improves, the choice of whether and where to invest in the CEECT will be increasingly made on rates-of-return criteria. This raises the issue of the extent to which foreign companies should be induced to invest through special treatment, such as tax incentives, or whether the principle of equal treatment of foreign and domestic investors should prevail. This dilemma is more acute in the CEECT than elsewhere. It is important not to alienate the unsubsidised domestic private sector and, in particular, potential domestic investors. Secondly, tax incentives may contribute to a misallocation of investment as restrictions imposed by the host Government or other market imperfections lead to a bias in favour of particular, often export, sectors. Thirdly, through the erosion of the tax base, tax inducements can significantly reduce the economic benefits to the host economy from FDI and, where discount rates are high and planning horizons long, may make a relatively small contribution to estimated rates of return [EBRD 1993].

87. The sort of measures that could still encourage FDI would be the further elimination of bureaucracy (for example, establishing a "one-stop investment shop" such as the Romanian Development Agency), cutting restrictions on the direction or minimum level of FDI and clarifying land ownership where that remains a problem. Those countries embarking on privatisation programmes could, as Latvia has done, make special efforts to create a "level playing field" for foreign participation by simplifying tendering procedures and making special provisions to ease the problems of a non-convertible currency, without actually discriminating in favour of foreign capital. I will return to the measures that the DME could adopt to encourage the expansion of FDI in the CEECT economies.

(c) Industrial policy

88. In principle, **industrial policy** (IP) is the third horse of the troika. A non-industry-specific IP, one directed at establishing the institutional and infrastructural framework, would complement a policy of uniform tariffs and minimum distortions in trade and a policy of facilitating FDI without discriminating against domestic investors. An industry-specific IP, one, say, of "picking the winners", would complement a trade policy designed to protect those sectors, at least in their infancy, and an FDI policy designed to direct investment into the same sectors.

89. In the countries furthest down the road to a market economy, Poland, the Czech Republic and Hungary, industrial policy can best be described as muddling through. Far from trying to "pick the winners", an approach that has shown very mixed results in the DMEs, the CE Governments have generally espoused a liberal industrial policy, emphasising the supply side through the establishment of an environment friendly to investment, both domestic and from abroad. However, to a large extent the emphasis on such an overall framework is lost in the clamour to cope with short-term exigencies.

90. Interventions have tended to be piecemeal and directed towards particular crises in particular firms or industries, often to avoid the unemployment consequences of bankruptcy. To most of the private sector, state intervention seems to have been replaced by "state desertion". But in the public sector there are, in all three countries, state enterprises which, being mainly non-competitive and often saddled with major debt, cannot easily be privatised. Because of their weight in employment, they are not allowed to go bankrupt and, as a result, they absorb vast resources that might otherwise have been spent on the framework needed to stimulate private sector investment and the micro-economic reforms that are needed to attack supply-side rigidity.

91. Privatisation policies and bankruptcy laws might properly be thought of as within the realm of IP. Here there is a case for debt forgiveness. But such considerations would take us beyond the areas which can properly be treated in this report. However, it is clear that because so much of the industrial structure represents historical baggage which, for social or political reasons, is not subjected to the tests of the market place, because interventions are reactive and concentrate on labour-market issues and because the environment is often unfriendly to market-driven investment, there will be long delays before the industrial structure begins to reflect each country's comparative advantages.

92. If that is the case for the Visegrad countries, it is all the more true of Romania, Bulgaria and the republics of the FSU. Again, this report cannot address the issues of reform of the industrial structure, privatisation, bankruptcy, investment incentives and technological change. In any event, though it might be tempting to treat, say, the FSU States as a roughly homogeneous group, that would be misleading. But two distinct points, one general and one specifically about the Russian Federation, should be made.

93. The industrial structure and export mix of the FSU as a whole will continue to reflect the raw material and energy resources of each country. In some cases these products, either crude or refined, are not competitive on world markets and to become so would require inputs - not always of great magnitude - of foreign investment, given the lack of investment funds in the countries themselves. But there is a danger that this investment will lead to islands of development, with little spillover to the rest of the economy. Inputs will be brought in from abroad. Output will be exported. These problems of enclave development can only be overcome by developing infrastructure and positive steps to encourage investment in complementary sectors.

94. The latest privatisation proposals in the Russian Federation, which have the strong financial backing of the United States and other Western Governments, are intended to avoid allowing the process to get bogged down in unemployment problems. The intention is that the large inefficient state enterprises which cannot be sold off as single units be split up into the economically viable portions and the rest, where the social security function would be clearly recognised. The former would be privatised and the residual labour force would then be employed on social projects, such as environmental clean-ups, infrastructural programmes or training, until such time as the workers could be absorbed by the private sector. There are clear analogies with the practices of the Treuhandanstalt in the former East Germany.

4. Medium-term perspectives for trade in goods and services

95. Trade in goods: under the former socialist regimes, these countries were constrained in their trading relationships by an autarky, partly self-imposed and partly the result of Western policies, and a bias towards import-substitution. A division of labour among the various FSU republics and their CEC partners was gradually established. Different countries within the bloc were allocated responsibility for the production of different groups of products, based only to a minor extent on comparative advantage (except where natural resources dictated it). Price signals were distorted by many factors, including artificial exchange rates, often differentiated by product, but even then they were second to political preferences in favour of developing complementarities within the CMEA. In the early years, trade with the West was discouraged for ideological reasons, though the need for Western capital goods to supplement their technologically inferior products led to increasing links through the 1970s and 1980s and the active promotion of exports to the West. On the Western side, COCOM has limited CEECT access to modern technology.

96. When in later years these autarkic principles were softened, more in some of the CEECT than in others, even the more outward-looking were hampered by the apparent inability of the system to adapt to the needs or preferences of external markets. There was little incentive to export. The high level of concentration of production allowed for the exploitation of monopoly power without the need for expanding production, risk-taking, innovating or quality-improvement [Paszynski and Falkowski, 1991]. Moreover "the material-balancing approach to development planning caused the external trade to become a residual dimension, not a principal goal of the plan as a means of a more effective resource allocation. Foreign trade thus lost its function of optimizing the economy and was being programmed at the minimum level of indispensable import requirements [op. cit., 7]."

97. Because of the strategy of independence from the West and the practice of allocating responsibilities for production to different countries within the CMEA region, trade between the CEECT and the rest of the world has been limited since the establishment of the Eastern bloc (see table 9). Indeed it fell, as a proportion of total world trade over the decade of the 1980s, though the fact that intra-CEECT trade also fell suggests that the reasons were more complex. Incidentally, even if one excludes 1990 and takes 1988 or 1989 as the final year, the share of world trade involving the CEECT falls appreciably.

Table 9

Share of world trade between CMEA and other areas 1980-1990 percentages

	1980	1990
N. America-CMEA	0.4	0.2
Latin America-CMEA	0.6	0.4
W. Europe-CMEA	4.0	3.1
Asia-CMEA	0.9	1.0
Africa-CMEA	0.4	0.2
Middle East-CMEA	0.5	0.2
Intra CMEA	3.9	2.2
Total	10.7	7.3
p.m. DCs-CMEA	2.4	1.8

Source: GATT, International Trade, 1990-1991.

98. In particular, the intensity of trade between the European Union and the CEECT countries has been reduced to a level far below what might be expected on the basis of geographical proximity and the trade shares of other countries in

the region. Of course the explanation is not all one-sided. The West has discouraged important technological exports to the East through COCOM. Meanwhile it has applied specific protectionist measures to state-trading nations - QRs, special anti-dumping and anti-subsidy rules - as well as general protection through the Multifibre Agreement (MFA), the Common Agricultural Policy (CAP) and other sectoral policies (see section 6 (b)). How much greater trade flows would have been in the counterfactual world can only be surmised.

99. Collins and Rodrik [1991] and Hamilton and Winters [1992] have predicted levels of trade between the CEECT and the West. Both basically assume that bilateral flows of East-West trade will ultimately reflect bilateral GDPs per capita, the sizes of domestic markets and transaction costs, including transport costs, between those markets. The parameters of the "gravity models" will approximate those found in trade flows among Western countries.

100. Collins and Rodrik combine the straightforward gravity approach applied to pre-CMEA trade flow data with the empirical experience of Western Europe. They estimate the volume and direction of East-West trade that might have been expected if the CEECT had not had their external economic relations distorted by the artificial CMEA trading arrangements. They predict that, at current (1988) income levels, the CEC plus the former Yugoslavia would have realised exports worth some $US 135 billion, as opposed to the $US 90 billion actually achieved. At average EC income levels - their "full catch-up" scenario - the value of exports would be $US 380 billion. Figures for the FSU are estimated at $US 143 billion in the medium run and $US 346 with full catch-up, against an actual $US 111 billion. Even if the effects of liberalisation were confined to Poland, the Czech and Slovak Republics and Hungary, the impact on world trade would be significant, with those three countries expanding their share from 1.7 per cent in 1988 to 3 per cent in the medium-run scenario to 6 per cent in the full catch-up scenario.

101. Collins and Rodrik's methodology implicitly assumes preferential trade with, if not membership of, the EU, Hamilton and Winters [1992] make no such assumption but reach comparable estimates for the level if not the direction of potential trade. They estimate that exports of individual CEECT countries as a percentage of their GNP will grow to two to three times the 1985 actual levels except in the case of Bulgaria, where however there were significant data problems. The main Western beneficiaries of increased trade in absolute terms will be Germany (exports up 24 per cent) and the United States (up 22 per cent).

102. Another study by Stern *et al* examines two different scenarios which they call the "successful reform" and the "failed reform" cases. In the former, the CEECT catch up with the less prosperous countries of the EU by 2010. In the latter they are barely able to recover the 1988 standard of living by 2010. I will concentrate on the former, since the latter, through a combination of a failure of policy to improve supply and a restrictive international trading environment, effectively remains outside the world trading system.

103. Stern *et al* assume growth rates for the years to 2010 for each CE country and the FSU, varying from 7.4 per cent (for the FSU) to 8.8 per cent for Romania and Bulgaria and 10 percent for the Visegrad countries for the period 1995 to

2000. A common 5 per cent per year is assumed for the period 2000 to 2010. On the basis of these and assumptions on world trade growth (5 per cent per year in real terms), real exchange rates (CEECT real rates fall 3 per cent per year), equilibrium exports-GNP ratios and the required elasticities, they project export growth rates over the period. The results are shown in table 10.

Table 10

CEECT exports, 1995 to 2010, NERA estimates, $US bn., and ratios to counterfactual

	Exports $US bn., 1991 prices			Ratio of actual exports to EU to potential, 1985	
	1995	2000	2010	NERA	H-W[a]
Bulgaria	10.0	14.4	30.4	10.0	6.3
CSFR (Fm.)	15.0	25.0	69.5	8.4	10.1
Hungary	19.0	27.6	57.9	7.0	5.0
Poland	24.0	38.7	101.0	9.6	4.9
Romania	8.8	14.4	38.7	3.3	2.0
FSU	72.0	112.6	275.3	5.2	4.7
Total	148.8	232.7	572.8	5.6	4.9

a: Hamilton and Winters (1992).

Source: Stern et al, 1992.

104. The predicted increases in exports of the CEECT countries are relatively rapid - some 1.5 times the six per cent assumed growth rate in world trade. "This export performance is comparable to Italy in 1950-70 or Spain in 1950-89 but not as strong a relative growth rate as for the Republic of South Korea and Taiwan since 1950 nor Portugal, Spain and Thailand in the 1980s. All these countries achieved export growth rates of 2-3 times that of world trade in the aforementioned periods [Stern *et al*, 1992, 13]." Comparison with the Hamilton-Winters results is reassuring, in that they are of the same relative orders of magnitude and the country rankings for potential trade expansion are similar.

105. However, in order to judge the potential competitive threat of CEECT exports to those of the developing countries, we need a plausible sectoral breakdown of these increased CEECT export volumes. Collins and Rodrik use indexes of revealed comparative advantage and ratios of per capita output in the CEECT countries to world per capita output for a large number of agricultural and industrial products to identify those sectors where the CEECT are likely to become aggressive exporters if not "dumpers" on the world economy. They conclude that, in summary, the FSU will basically export energy and raw materials, while the CEC will export agricultural goods, processed food and a wide range of manufactured products. The CEECT as a whole will import machinery, chemicals and other manufactures.

106. NERA look in some detail at the sectoral breakdown of future trade between the EU and the CEECT. Estimates for CEECT agricultural exports to the EU are based on three key assumptions - no trade barriers between the EU and the CEECT, a strong supply response by CEECT producers, and open intra-CEECT trade. The first of these is both the most important and most contentious. As is explained in the next section, it seems appropriate to assume that the Visegrad countries will be members of the European Union by the turn of the century. Membership for Bulgaria, Romania and the Baltic States will be further delayed, and much more so the remaining FSU States. But even if projected agricultural exports for future years to the EU from Bulgaria, Romania and the FSU are reduced by half the NERA figures, this still gives figures for exports in 1991 prices of $US 6.1 billion in the year 2000 and $US 20.8 billion in 2010, compared with only $US 1 billion in 1987. Romania, Hungary and Bulgaria will be the main exporters of agricultural and orchard crops, while Poland and Hungary will be the largest exporters of meats.

107. As regards trade in energy products, the dominant flow will certainly be exports of oil and natural gas from the FSU. The NERA study projects exports of the CEECT to the EU of $US 36.6 billion in 2000 and $US 44.1 in 2010. The NERA projections of CEECT exports of manufactures are based on a number of detailed assumptions which could be challenged one by one. Overall they give a plausible if perhaps rather too dramatic picture, though the intention was to give the upper bound of a probability range. The annual average growth rates of CEECT manufactured exports to the EU are projected at 14.0 per cent for the period 1988 to 1995 and 10.7 per cent for 1995 to 2010. Nominal exports are calculated to reach $US 30.7 billion in 1995, $US 53.2 billion in 2000 and $US 143.6 billion in 2010.

108. Prior to 1989, CEECT manufactured exports to the EU were heavily concentrated in a few industries -clothing, footwear and leather goods (15 per cent in 1987), timber and furniture (15 per cent), ferrous and non-ferrous metals (14 per cent), chemicals, including artificial fibres (11 per cent), food, drink and tobacco (9 per cent). Among clothing, footwear and leather goods, clothing predominated. By and large the important product groups were the same for all the CEECT. Other than those sectors cited above, non-metallic minerals were important for the CSFR, motor vehicles for Poland, Romania and the USSR, and paper for Hungary and the USSR. Engineering exports only accounted for 10 per cent of CEECT manufactured exports and only 13 per cent of those of the Visegrad countries. The NERA projections foresee a diversification of CEECT manufactured exports, as well as the expansion of intra-industry trade, which should mitigate the pressure on specific EU sectors and regions.

109. The NERA projections are broken down sectorally on the basis of a study by Landesmann and Shields [1993; see also Landesmann and Székely, 1991] using a comparator-country approach, well doctored to take account of such factors as quality and geography. The figures at the two-digit NACE classification are given in table 11.

Table 11

Average growth rates of CEECT manufactured exports to the EU, NERA estimates, constant prices, % per annum

	Visegrad countries		CEECT*	
	1987-1995	1995-2010	1987-1995	1995-2010
Ferrous and non-ferrous metals	13.4	6.7	8.9	955.8
Non-metallic minerals	12.7	6.3	9.0	8.5
Chemicals	14.5	10.9	10.4	11.0
Metal goods nes	12.3	12.7	7.8	13.9
Mechanical engineering	15.0	14.1	10.5	16.6
Electrical engineering	14.3	15.9	7.3	15.2
Instrument engineering	16.5	27.9	8.8	29.1
Motor vehicles and other transport	14.3	14.1	6.8	11.5
Food, drink and tobacco	12.2	6.5	9.5	8.2
Textiles	10.3	7.4	5.2	7.5
Clothing, footwear and leather goods	11.3	1.5	5.4	2.0
Paper, printing and publishing	12.7	18.2	8.1	15.1
Other manufacturing	11.8	9.2	6.6	5.9
Total manufacturing	12.8	10.4	7.8	10.0

a: including former Yugoslavia.

Source: Stern *et al*, 1992.

110. The projected growth rates in the "traditional" CEECT export industries are in most cases (textiles, clothing and footwear, ferrous and non-ferrous metals beyond 1995) below those of the new export industries which are primarily in engineering. The exception is chemicals, which will be the most important export industry for all CEECT in 2010, accounting for 14 per cent of manufacturing exports to the EU. Metals are projected to increase their share marginally up to 1995 (up to 15 per cent) and then fall back sharply to only 8 per cent in 2050. Clothing and footwear was the most important export industry in 1987. In

1995 it will be the fourth most important, with a projected 13 per cent of CEECT manufacturing exports. In 2010 it will not feature in the top six for any CEECT.

111. This study can be compared with the research of Hare and Hughes [see, for example, Hare and Hughes [1992]. In a series of papers, they report results based on applying world prices to pre-transition sectoral input-output tables to calculate the domestic resource costs and potential competitiveness of different industries. The problem with the methodology is that the input-output tables are out-of-date and, anyway, refer to a period when these countries were not facing world prices, and so cannot be used to measure efficiency in resource allocation today or predict resource allocation tomorrow. As these countries adjust to world prices, they will alter the relative quantities of factor and intermediate product inputs, as well as their mix of final output.

112. Another related problem is that to derive conclusions about future CEECT competitiveness, even in the short run where the input-output tables may still have some relevance, assumes that economic agents will respond to price signals according to the conventions of classical theory. But as Stern *et al.* [1992, 94] point out, most of these countries do not yet have effective bankruptcy laws, and because of inter-enterprise trade credits, budget constraints are weak. Furthermore, even in the CEECT where reforms are most advanced, many large manufacturing enterprises still operate within the public sector and are subject to redundancy and other social constraints. It is not clear that, at least in the short run, enterprises will operate in a profit-maximising way. (This is a gross simplification: see, for example, Estrin and Hare, 1992. These conclusions are strengthened by the lack of correlation between the levels or changes in CEECT exports to the EU and the Hughes and Hare measures of competitiveness.

113. Comparing the Hare and Hughes rankings of competitiveness with the NERA long-term projections of the composition of manufacturing exports reveals quite a close correlation for the FSU and for the former CSFR. For Poland and Hungary, and probably Bulgaria, the correlations are negative. For example, Hare and Hughes predict food and drink manufactures as being internationally uncompetitive in all CEECT except Bulgaria: they did not carry out the exercise for Romania. The NERA results have it as potentially quite a strong performer. Hamilton and Winters incline to the latter view. Across industries, the two sets of rankings coincide most often on the good prospects for mechanical engineering exports. After food and drink, they coincide least for clothing, footwear and leather goods, whose prospects are good for Hare and Hughes, less so for Stern *et al.*

114. Support for the NERA results is provided by consideration of the advantages of the CEECT in education and training. Hamilton and Winters [1992] make a strong argument that the high level of educational attainment in CEECT countries gives them a comparative advantage in "hi-tech" and "mid-tech" goods. They look particularly at Poland and Hungary, but show that in terms of secondary school enrolment, all the CEECT countries are generally close to, and often above, the industrial countries. These advantages would favour competitiveness in engineering products and transport goods at the expense of metals and minerals, chemicals, food, drink and tobacco, textiles and clothing, footwear and leather goods. The only sector where the NERA results clearly fall into the wrong category is chemicals.

115. It is worth examining the commodity composition in the recent surge of CE exports to the EC for any signs of a change in the export mix towards more sophisticated products (again see appendix tables 7 to 15). In the case of Poland, the sources of the latest export boom seem to be concentrated among the traditional exports to the EC - textiles, footwear and clothing, leather goods and wooden products. Others - chemicals, and food, drink and tobacco - have not shared in the latest expansion. On the other hand, there is little evidence of the development of new, more technological, export sectors. In the case of the former CSFR, the traditional sectors remain strong, except again for chemicals and food, drink and tobacco, but there has been a surge in exports of non-metal mineral goods (largely glassware), metal goods and office machinery. In Hungary the trend is more apparent still. Again, chemicals and food appear to suffer relatively, but metal goods, office machinery, electrical engineering and motor vehicles and parts show above-average growth. One can hardly draw too much from such a short data span - though in some cases the trend is evident from 1989 onwards. All one can conclude is that the data is certainly consistent in the cases of the former CSFR and Hungary with the revalorisation of the export mix that some writers have forecast.

116. Turning to studies of particular countries within the CEECT group, Dioumoulen [1992, 13] argues that some of the Soviet industries now in the Russian Federation, could still be competitive on the world market with regard to both price and quality. He gives as examples heavy and power-generating machinery, motor cars, clocks and watches, military equipment and textiles. This is not inconsistent with the NERA results. However, revealed comparative advantage based on pre-transition trade flows takes no account of the political or economic incentives given to certain countries to buy from the FSU. These included price subsidies in the case of the CEC and financial aid, technical assistance and direct investment in the case of the developing countries. "Evidence indicates that a considerable share of manufactured products previously exported to the East are unmarketable in the West, at any price. Examples are computer products that are several generations old and manufacturing activities specifically geared to Soviet standards (e.g. tramcars)" [Rodrik, 1992a, 17].

117. But there is no question that the Russian Federation has, for historical reasons, certain well-established high-technology sectors, in aviation and aerospace, certain communication and electronics subsectors, nuclear power and armaments, that only the United States can parallel. To what extent these can be exploited as long-term export sectors depends on whether they are or can be rendered competitive in world markets without subsidisation. Detailed industry studies are required, but even with them, it would be difficult to forecast the viability of such sectors. Certainly there has been no rush of foreign investment in recent years, but that could be mainly because of uncertainty and risk in the political and macro-economic environment.

118. In a separate study, the Hare and Hughes methodology has been applied to Hungary. The 1986 input-output model was updated to 1990, thus weakening the earlier critique of the use of out-of-date technical coefficients. This, and the fact that before 1990 the role of the market in Hungary was more significant than in other CEECT, together with a number of other data refinements, should have improved the reliability of the results. Indeed, certain sectors are re-evaluated

relative to the earlier studies as more competitive. These include transport equipment and telecommunications/vacuum engineering. Chemicals are only second to knitwear in competitiveness. The ranking is still quite far from that of the NERA study, but there has been some convergence.

119. In moving to a more sophisticated mix of exports, the CEC would be reverting to an earlier pattern of trade. In 1981 engineering goods were more important than metals, chemicals or light industry (including clothing and footwear) in Poland's exports, both within the CMEA and beyond [see Chavigny 1992]. To the extent that they are unable to meet the higher quality requirements of the DMEs, the CEC will have to search for markets among the developing countries.

120. But whatever happens to trade with the outside world, it is certain that much of the trade within the old CMEA area will be restored as political and economic disruptions subside. Gora [1992] is concerned with the damage done to substantial parts of Polish industry by the loss of exports to the FSU, notably in the electrical and light engineering and pharmaceutical industries. Much of that trade will be restored spontaneously by enterprises if the necessary financing arrangements are put in place (see section B. 1(a)). Inter-CEECT trade will expand because of geographical proximity and established complementarities. For example, Poland needs the Russian Federation's petroleum, natural gas and iron ore. As their economic situation betters, the Russian Federation, Ukraine and Belarus will expand their imports of Polish pharmaceuticals, food, machinery parts and consumer durables, even if they simultaneously diversify their imports towards the Far East and the DMEs in search of better quality and more advanced products. As for products such as coal and coke, sulphur and other basic chemicals, Poland can produce to the same quality as the DMEs or the developing countries and, even if the FSU republics have to pay world prices, there are clear advantages in transport costs in importing from Poland and the other CEC.

121. To a large extent, however, development of trade between the CEC on the one hand and the FSU on the other requires the determination of the authorities in the countries concerned. At the moment, insufficient efforts are being made to rebuild trading links by reducing non-tariff barriers. This implies establishing workable, if temporary, payments facilities, reducing bureaucratic interventions by customs officials and others, and renewing the transport network where that is a major obstacle.

122. In broad terms, then, one can be guardedly optimistic about prospects for the CEC. To what extent can one be similarly optimistic about the FSU States? For the foreseeable future, traditional sectors will dominate manufactured exports to the West - chemicals, steel, aluminium. The established export products of these countries are among those with the slowest rates of growth in world trade. Growth in market share in these sectors is possible as long as costs are kept down, but it is unlikely that exports of these goods will ever be the motor of rapid industrial growth. Diversification is critical, and that implies foreign technology, management methods and, most important, investment. At present, the poor standards of FSU manufactures and other inadequacies - lack of availability of parts, servicing and so on - make them non-competitive. This will encourage the CIS countries to concentrate on arms sales, since their arms,

at least, appear to be competitive on world markets.

123. Whatever happens to manufactures, raw materials, in particular gas, oil, coal, timber, rare and precious metals, will remain of paramount importance. Oil and gas have made up nearly 50 per cent of exports in recent years, and progress in diversification will be slow and, again, depend critically on the amount and sectoral allocation of foreign investment [Dioumoulen 1992, 52].

124. The prospects for East-Eest trade have been described without any distinction being made between the various countries in the CEC or FSU groupings. As in the rest of this report, little attempt is made to differentiate among countries within a group, not because such differentiation is not appropriate, but because of resource constraints on the study. It should be noted, however, that even in the absence of such constraints, there would be serious problems of data to contend with. Indeed, separate studies for individual countries, with detailed on-the-spot research, would be necessary to go beyond the broad synthesis of common problems and prospects which is presented here.

125. The **conclusions** to be drawn are that the future levels and sectoral development of East-West merchandise trade depend on a number of critical factors, including:

Competitiveness of CEECT exports; in the short run, whether the CEECT continue to maintain undervalued currencies is important;

Western investment in CEECT industries and, with it, the transfer of technology and know-how is dealt with in the next section;

Conditions of access to Western markets. These are discussed in more detail in sections A.6 and B.1;

Subject to these qualifications, trade between the CEC and the West is likely to multiply, perhaps four- to sixfold, over the next 25 to 20 years, by which time, taking a sanguine view, the CEC will be approaching the EU average per capita income;

Changes in the composition of trade are likely to include a significant diversification in CEC exports out of the staples, textiles and clothing, chemicals and metals, towards more medium- and high-tech products, especially engineering goods.

In the case of the countries of the FSU, trade with the West will expand as they stabilise their economies and complete the reform process. There will be a major surge in exports by the FSU (and Romania) when export controls are removed. It will be greatly conditioned by the evolution of trade and credit facilities, and the development of an institutional framework which favours an export "culture";

Trade between the CEC and the FSU will be rebuilt as the economic situation in the FSU is gradually restored. Among all the ex-CMEA countries as a whole, the strength of trade links over the medium term will depend on the establishment of trade and payments facilities, on whether existing formal non-tariff barriers are dismantled or multiplied and on the success and breadth of the various customs regimes. The institutional questions are discussed at more length in section 6 (d) below. The elimination of export controls will also lead to a sharp rise in intra-FSU trade.

126. Comprehensive data on **CEECT trade in services** are not available. There are only limited indicators of credits and debits in particular services, such as tourism.

127. Services are exchanged either through cross-border trade or by establishing outlets in the target market. Among the former, travel, and especially tourism, are important net exports for some of the CEC, namely the Czech Republic, Hungary and to a lesser extent Poland. There are opportunities for developing these services in those countries - to a large extent a matter of improving the quality of tourist facilities - and greater opportunities for exploiting natural and cultural resources in the other CEECT. In general, there are few barriers to cross-border purchases of services, which include, beyond transport, financial and business services, construction, telecommunications, films and television, and patents. But the CEECT countries are evidently improving their balance with the DMEs. Indeed, the EU calculates that EU debits in cross-border trade with the CEECT countries grew by 34 per cent between the first half and the second half of the 1980s, while credits grew by 17.5 per cent. Now the CEECT have a small surplus.

128. However most of the services enumerated in the last paragraph can be marketed more efficiently by establishing in the importing country. It is in this context that trade in services becomes more controversial. Most of the CEECT still retain limitations against foreign firms establishing in certain sectors, most commonly banking and/or insurance. The justification is based on infant-industry grounds and the current weak competitiveness of domestic institutions. There is also a feeling that formerly protected services could easily become swamped by foreign banks or insurance companies. This might be damaging to national pride or even, in the case of financial services, to the ability of the government to manage monetary policy. The General Agreement on Trade in Services, elaborated in the Uruguay Round of multilateral trade negotiations implies a time-limit on CEECT barriers to FDI in services through the enforcement of the general principle of national treatment. As Messerlin points out, "there are no new or robust theoretical foundations for dropping trade liberalization in favour of transitory protection for infant industries in the case of services" [CEC 1993]. Moreover foreign investment can play an important role in building necessary economic institutions, not least in accounting and securities firms, as well as in more controversial areas of banking and insurance.

129. In due course, the CEECT should be in a position to exploit their educational advantages to develop services exports. It is now a commonplace that trade in services develops, as does trade in goods, consistently with cross-

country differences in factor endowments and technology. Apart from tourism, the following appear plausible: medical services, including hospital treatment, sanatoria etc., data processing and computer services, certain areas of vocational education, advertising and audiovisual services. This is clearly not a complete list. Nor would it be the same for all the CEECT.

5. Medium-term outlook for foreign direct investment

130. Despite early disappointment, the outlook for foreign direct investment flows into the CEECT is now very positive. FDI depends on a host of factors, of which confidence in the political perspective is particularly important. Other important factors have a large political content - the establishment of a clear and reliable regulatory framework, confidence in appropriate compensation in the event of nationalisation or confiscation or the passing of costly environmental laws, development of the infrastructure and so on. Thus, forecasts of FDI flows are inevitably hazardous.

131. FDI is concerned with two broad sets of market opportunities: either exploiting local domestic markets or investing for export markets. These are sometimes called "market-based" and "factor-based" FDI respectively. The first will be encouraged by trade barriers insulating CEECT markets, the second by the absence of those barriers and by improved access to the DME markets. Despite some backtracking, not yet too serious, the CEC administrations of differing complexions seem committed to low import barriers and the gradual establishment of a free trade area with the EU and EFTA.

132. Clear success in the CEC policy of open markets (which will be judged on the basis of the speed of their transition and their economic stability during it) would encourage the FSU countries to further open their markets. The major purpose of FDI in the CEECT will be producing where costs, including transportation to markets, are minimised. Production will be primarily directed to export markets, though in the case of the FSU, the scope for selling within the region would justify many "transnational" operations. The EU insistence that the Visegrad countries form a free trade area, whatever its origin, should result in rendering those countries more attractive to transnational companies.

133. "..[We] would anticipate that at least the larger MNEs will respond to the challenges and opportunities of Eastern Europe in terms of its likely effect on their *global* marketing and production strategies. This is what is already happening in Western Europe and, to some extent, in the US and Canada as well. If current trends are anything to go by, Western and Japanese MNEs are unlikely to treat their East European affiliates as stand alone ventures, but to treat them as part and parcel of a Pan-European or even an international network of activities [Dunning 1991, his italics]". Certainly the massive projects in energy, chemicals and motor cars are consistent with this view, though those in utilities and financial services are clearly market-based. The size of some of the individual investments in the Visegrad countries in breweries, food processing, glassmaking, and furniture manufacture, among others, suggests that the prospective markets are much greater than the individual country involved.

134. Strangely enough, in the many surveys of why businesses do or do not invest in the CEECT, the question of what market they are seeking to supply never seems to get asked. However, Collins and Rodrik [1991] report that in a survey among businesses of the major attractions to investing in the CEECT, "new and expanding markets" (without further specification) came out top, with "proximity to EU markets" third. But such surveys are pretty meaningless. The second in the ranking of attractions was "potential to beat competitors by being first".

135. Table 12 shows FDI flows between 1985 and 1991 into different areas of the world. The latest data on aggregate flows into the CEECT economies do not seem consistent with the flows that would be implied by armchair hypothesising about potential market size and the inherent advantages in skills and low labour costs. The CEECT, with a population of some 380 million, received in 1992 less than half of what Mexico with one quarter the population. The average living standards are probably not very different - here is not the place to get into a discussion of relative real incomes, about which there is considerable controversy, particularly regarding the FSU - but Mexico is close to the enormous United States market and has recently signed a free trade agreement with its northern neighbours.

Table 12

Foreign direct investment, selected recipients, 1985-1992, $US billion

	1985	1986	1987	1988	1989	1990	1991	1992[a]
Sub-Saharan Africa	1.318	0.719	1.392	1.044	2.476	0.669	1.746	1.280
South Asia	0.157	0.137	0.191	0.233	0.229	0.291	0.356	0.420
East Asia and Pacific	3.183	3.546	4.485	7.593	9.071	10.885	13.021	15.060
Latin America and Caribbean	4.345	3.569	5.818	8.012	7.135	7.725	12.766	13.778
Argentina	0.919	0.574	-0.019	1.147	1.028	2.008	2.481	2.538
Brazil	1.267	0.177	1.087	2.794	0.744	0.236	0.209	0.261
Chile	0.114	0.116	0.230	0.141	0.184	0.249	0.576	0.640
Mexico	0.491	1.523	3.246	2.594	3.037	2.632	4.762	6.191
Total developing countries	10.964	9.874	13.730	19.740	23.321	24.008	33.907	38.252
Total low-income countries[b]	3.940	3.675	4.726	5.755	7.717	6.401	7.383	9.212
CEECT[c]	15	16	12	15	268	300	2 393	2 700

a: Estimates. b: World Bank definition. c: These World Bank data may differ from the ECE figures elsewhere in the report. The former are based on balance-of-payments statistics, the latter on a variety of sources.

Source: EBRD 1993.

136. The impediments to FDI in the CEECT were discussed earlier. To some extent these are now being resolved, particularly in the CEC. The interest in investing in the energy sector in the FSU is clearly there, though those investments could be postponed unless political uncertainties are to some extent resolved. The World Bank has decided to waive the "negative financing" rule for the CEECT. This prevented any country participating in World Bank programmes from giving equal or more favourable terms to any other investors. The Bank is designing a form of financing with a waiver. This would be particularly suitable for financing energy projects and for co-financing with the EBRD [ECE 1993].

137. Quite apart from political and economic issues in the CEECT, the recession in Western Europe and the United States has clearly had a detrimental impact on FDI flows into the CEECT. The recession has reinforced the cautious "wait-and-see" attitude, and in many cases projects have been postponed. With recovery in the United States and the EU in the latter part of 1993 or early 1994, there was an increase in FDI flows into the CEECT. A tenfold increase on the latest figures is certainly within a reasonable order of magnitude by the end of the decade.

138. Whatever the actual figures, as the environment for investment improves with more stable economic and political conditions and a more transparent, less bureaucratic regulatory system, FDI flows into the CEECT will increase. The CEC will benefit in advance of the FSU countries because of their headstart in the transition process and because of their proximity to the EU market. These countries will be increasingly attractive to TNCs looking for low-cost production bases to serve the European market. They will become yet more inviting as trade barriers with the EU are eliminated, as envisaged by the Europe Agreements, and as they approach membership of the EU.

139. The FSU States will be attractive to foreign investors either for the production of natural resource goods for the world market, where there are major economies to be derived from the size of the deposits of minerals and oil, or for the production of manufactures and services to supply the domestic and, mainly in the case of manufactures, neighbouring markets. In both cases there will be plenty of scope for competition. Their progress in establishing an appealing environment for international investors is variable. In Estonia, for example, there has been considerable progress in combatting inflation. At the same time, one of the main attractions, a relatively cheap and skilled labour force, has faded following the doubling of wages in dollar terms. The privatisation programme proceeds in fits and starts. An initial international tender involving 38 large companies in November 1992 was aborted after allegations of incompetence at the privatisation agency. As of June 1993, only $US 8.6 million of a total of $US 500 million of state assets have been transferred to the private sector [Financial Times, 23 June 1993], though special efforts have been made to include foreigners in the privatisation process. The problems are perhaps temporary but are not atypical of the sort of hiccups that will happen, and the international investor community would generally rather be safe than sorry.

6. Regional integration of CEECT with European and other countries

(a) Within CEECT

140. **Trading arrangements between the CEECT** themselves are at present in considerable flux. **Among the CIS States,** there is, in principle, free trade, though this applies more in principle than in practice. The CIS Agreement of 14 February 1992 specified an agreed list of goods for which quotas or licenses may be required for intra-Commonwealth trade, though, pointedly, it allows the republics to decide individually until such a list is agreed. There are a number of other clauses designed to facilitate trade, including those to prevent joint taxation, ensure transport across republics is unhindered and establish the principle that trade be carried out at market prices and that settlements take place in roubles.

141. However, volumes of intra-republic trade are still very depressed relative to the situation in the last years of the Soviet Union, though whether they are still declining is impossible to determine. Part of the problem is the frequency of export controls designed to preserve supplies for domestic use. In addition contractual commitments are often not respected, resulting in the extended dislocation of production as supplies are cut in successive sectors in a chain reaction. In practice, administered prices still often lead to large-scale financial transfers of rents between republics, which with non-convertibility of currencies, encourages resort at best to barter, otherwise to autarky.

The Czech-Slovak Divorce

The two parts of the CSFR separated on 1 January 1993. Inter-republic trade is estimated at about one third of the former Czechoslovakia's exports to the rest of the world. To protect this trade, a customs union, with a common external tariff, was established, together with free movement of capital and labour. The initial monetary union could not survive speculation and was dissolved in February, and a bilateral payments arrangement introduced. In March 1993 the Slovak koruna was devalued against the ECU by 5 per cent and the Czech koruna revalued by 2 per cent. A summary of the other economic arrangements for the breakup are given in IMF [1993], 62-63.

142. Over the last years, a network of bilateral and multilateral agreements among the former CMEA members has been established at the national and branch or enterprise level in a conscious effort to restore trade. The Russian Federation has signed a bilateral trade agreement with Ukraine. Given the size of these economies, this is particularly important, though it is only one of a number of efforts to re-establish trade within CIS. Protocols have also been signed between the Russian Federation and the Visegrad countries which are in part designed to sidestep the problem of inadequate hard currency by encouraging barter deals, joint ventures and so on.

143. At the end of 1992, the Visegrad countries signed the **Central European Free Trade Agreement** (CEFTA). This took effect from 1 March 1993 and will lead to the gradual elimination of tariffs and non-tariff barriers in industrial and agricultural products over a period of eight years. The Visegrad countries were encouraged to establish the CEFTA by the European Union as a condition for the agreements between the EU and those countries (to be discussed below).

144. A study of the effects of the CEFTA on the Polish economy shows that the loss in customs revenues is compensated by higher revenues for Polish exporters [Guzek *et al*, 1992]. The indirect effects from the fall in domestic costs and prices can then be considered net gains, though on balance these are minor. However, much remains to be done to define the precise details of the Agreement. According to Article 24 of the GATT General Agreement, a free trade area has to be all-encompassing. This could mean significant relocation of agricultural output among the four countries, an effect not taken account of in the study and likely to be of considerable net benefit to Poland.

145. As long as trade links are based on market principles, CEFTA will help the restructuring of the economies of the member countries by encouraging specialisation and intra-industry and intra-firm trade. However the slow progress envisaged in the elimination of trade barriers does raise the question of whether events, in particular membership of the EU, will not overtake any significant gains accruing from the CEFTA. Secondly the opportunities for trade and production rationalisation could be expanded by inviting Romania, Bulgaria and, in due course, the Baltic States to join the CEFTA.

(b) Within EU

146. Despite the relative unimportance of imports from the CEECT, the **European Union**, under pressure from industrial lobby groups, probably aggravated at that time by recession, has struck hard bargains with the CEC in the so-called Europe Agreements and was even less generous over access to the EU market in the agreements with the other FSU countries.

Table 13

Penetration of EU market, sensitive products

	Poland	fm CSFR	Hungary	Bulgaria	Romania	CEC
Share in CEC total exports, per cent:						
Metals	16.3	13.9	9.0	16.9	12.4	13.6
Chemicals	10.5	12.0	11.5	15.2	6.6	10.8
Food, drink and tobacco	14.1	4.4	19.2	12.5	3.5	11.5
Footwear, clothing	15.2	8.2	16.6	14.3	24.9	14.9
Annual growth rate, 1990-1992 average, per cent						
Metals	23	29	-1	21	-24	14
Chemicals	21	18	14	8	-12	14
Food, drink and tobacco	8	-3	4	8	-19	4
Footwear, clothing	40	47	23	65	40	30
Shares in total EU imports, 1990-1992 average, per cent:						
Metals	2.8	1.8	0.9	0.3	0.4	6.2
Chemicals	1.5	1.2	1.0	0.2	0.2	4.2
Food, drink and tobacco	3.1	0.7	2.6	0.3	0.1	6.9
Footwear, clothing	3.7	1.5	2.4	0.5	1.7	9.8

Source: COMTRADE data bank.

147. It is obvious from table 13 how the EU industry could become concerned about the surge of imports from the CEC in the sensitive sectors, even though the average share of EU imports accounted for by these countries remained fairly small. The importance of these sectors as a whole in the CEC exports was very significant, though no one sector's exports were critical. It is against the background of active lobbying on the part of those EU industries and a lively

concern on the part of the CEC to maximise access for those exports that negotiations by the Commission with the CEC governments individually took place.

148. **Poland, Hungary and the former CSFR** signed Association or Europe Agreements with the EU in 1991, while Romania and Bulgaria did so in 1992. The trade and trade-related chapters have come into force as interim agreements, in March 1992 for the Visegrad countries but only on 1 June 1993 as regards **Romania**. Implementation of the interim agreement with **Bulgaria** was delayed until 1994, when the issue of safeguards was resolved in the EU Council of Ministers. The agreement with the Czech Republic and Slovakia will be applied on the one side by the EU, and on the other, individually by the Czech Republic and Slovakia, now that the original CSFR quotas have been re-allocated.

149. The agreements embrace a number of chapters which deal with political dialogue, the movement of workers, conditions for the establishment of enterprises, the introduction of Community competition policy in the Central European countries and technical cooperation on a long list of subjects, as well as market access and the establishment of a free trade area between each Central European country and the Community. The agreements were supposed to establish a new climate of economic relations between the EU and the Central and Eastern European countries and prepare the way for the eventual accession of those countries to the EU. In the Agreements, the Commission negotiators were careful to avoid any dates or any clear commitments to future membership, though a more positive message emerged from the Copenhagen Council of June 1993 and later with the adoption of the White Book on this issue in 1995.

150. It is the trade arrangements that concern us here. The bones of the agreements as regards the Visegrad countries are as follows:

A free trade area to be established within 10 years of the entry into force of the agreements. In general, the CEC are given longer to open their markets (10 years) than is the European Union (5 years);

Immediate elimination of quantitative restrictions on trade in all products other than agricultural goods, textiles and clothing, and coal;

Tariffs on all industrial products to be abolished by both parties in 10 years at the latest. For standard products, EU tariffs were eliminated from March 1992 and for another group, aluminum, leather, salt, sulphur and certain precious metals, from March 1993. Further delays in the elimination of tariffs will apply to ECSC products (i.e. most iron and steel products and coal). For textile and clothing products covered by the EU MFA, EU quantitative restrictions and tariffs to be phased out by January 1998, but only provided that the MFA is itself dismantled (as is foreseen within the Uruguay Round Agreements);

Special arrangements in the sensitive sectors, including (non-MFA) textiles and clothing, (non-ECSC) iron and steel, footwear, motor vehicles and furniture. For quantities under EU tariff-quotas (previously GSP tariff-quotas), tariffs to be reduced and quotas expanded until both are eliminated by January 1997. Outside tariff-quotas, QRs are to be immediately abolished and tariffs phased out by January 1996;

For agricultural goods, certain earlier concessions to be consolidated with further reciprocal concessions for specific products. In general, the CAP regimes as they affect imports from third countries are maintained, even at the end of the liberalization process. However, reduced tariffs within tariff quotas are foreseen, with either the tariff or the quota arrangement being improved over a five-year period. Thus, exports of meat, fruit, dairy products and vegetables should rise by 10 per cent a year over five years;

Existing anti-dumping procedures not to be constrained by the agreements, though the special procedures applicable to state-trading nations no longer apply. Countervailing duty proceedings will also continue in the case of subsidised industries, though there is agreement that the CEC will adopt EU competition rules over a three-year period, thus obviating the need for such actions. A general clause is included which allows safeguard action in the case of serious injury to domestic industry. This is tougher than the general EU clause, in that it needs a qualified majority to block a safeguard measure imposed by the Commission - rather than a qualified majority in favour.

151. The agreements for Romania and Bulgaria are very similar and only differ as regards the details of the goods in different categories and the timetables for liberalisation. Also because of disagreement in the EU Council over the safeguards issue, the Romanian agreement has no safeguard clause and the implementation of the Bulgarian agreement is temporarily blocked.

152. The Copenhagen Council (June 1993) has speeded up the timetable for the elimination of EU tariffs on sensitive products by two years and has raised the annual rate at which tariff-quotas and QRs will be expanded, by 30 per cent or 25 per cent for Hungary rather than 20 per cent and 15 per cent.

153. It is difficult to over-emphasize the importance of access to the EU market for the countries of Central Europe. The four manufacturing sectors where protection remains in place - or is threatened through "contingent" measures - food products, iron and steel, textiles and clothing and chemicals-represented over a third of value added and employment in manufacturing in the five CEC at the beginning of the transition [Rollo and Smith, 1993].

154. The CEC economies need access to Western markets to compensate for the loss in their traditional CMEA markets, as well as the large reductions in domestic demand, while the EU is by far the most important single market for their products. They require large amounts of foreign exchange to import investment goods for industrial and agricultural reconstruction. In particular, the reform process requires export opportunities for those sectors, often not identifiable

ex ante, in which the CEC have comparative advantage. All the CEC have a rump of large state enterprises which will prove difficult to privatise. With sometimes modest amounts of new investment, parts of these enterprises may be competitive in export markets, but unless these markets are clearly accessible now and in the future, private funds will not be forthcoming. In general, the close link between CEC exports, foreign direct investment and the prospective success of the reform process in Central and Eastern Europe cannot be overstated.

155. The significance of the Europe Agreements in opening up the EU markets to CEC exports should not be minimised. For the whole industrial sector, including sensitive goods, the immediate effect of the introduction of the trade sections of the agreements is to reduce the proportion of tariff lines still subject to a tariff to 13 per cent, with an average tariff rate of about 8 per cent on those lines.

156. However there are a number of areas in which the Europe Agreements fall short of the goals and needs of the Central European economies. Continued EU protection through tariffs and QRs is concentrated in just those sectors, namely agriculture, textiles and clothing, iron and steel, and leather goods, in which the countries of Central Europe have shown themselves competitive on the EU and other Western markets.

157. There is additionally the threat of further protection through anti-dumping (AD) and safeguard actions. Table 14 lists AD measures currently in force. In November 1992, renewed in March 1993, provisional AD duties were imposed on certain seamless iron and non-alloy steel pipes from Hungary and Poland. The Commission insisted on using the old state-trading rules for assessing normal prices on the grounds that interim agreements were not yet in force. Complaints about dumping of pig iron from Poland and solution mixtures of urea and ammonium nitrate from Poland and Bulgaria are under investigation. In response to complaints, the Commission has allowed Germany, France and Italy to restrict certain rolled steel products coming in from the Czech Republic and Slovakia. And there have been threats of actions in the fertiliser and chemicals sector, which has historically been the scene of the widespread use of EU anti-dumping procedures against these countries.

Table 14

Anti-dumping measures in force against CEECT at 18 June 1993

Product	Origin	Measure	Regulation/ decision	Publication
Artificial corundum	Hungary	Undertakings	Com. Dec. 91/512/	OJ L 275
Copper sulphate	Bulgaria USSR	Duties	Council Regulation no. 176/89 23.1.89	OJ L 23 27.1.89
Ferro-silicon	USSR	Under-takings	Com. Reg. 91/240/EEC 29.4.91	OJ L 111 3.5.91
Ferro-silicon	Poland	Duty	Council Regulation No. 3642/92 14.12.92	OJ L 369 18.12.92
Ferro-silicon	Poland	Undertaking	Com. Dec. 92/572 14.12.92	OJ L 369 18.12.92
Herbicide	Romania	Undertaking	Com. Dec. 88/47 26.1.88	OJ L 26 30.1.88
Methenamine	Bulgaria Czech Rep., Slovakia Poland Romania	Undertakings	Com. Dec. 90/196 10.4.90	OJ L 104 24.4.90
Potassium chloride	Belarus Russia Ukraine	Duties	Council Regulation No. 3068/92 23.10.92	OJ L 308 24.10.92
Potassium permanganate	Czech Rep., Slovakia	Duty	Council Regulation No. 385/90 12.2.90	OJ L 42 16.2.90
Seamless steel tubes	Hungary Poland	Duty Under-takings	Ccl. Reg. No. 1189/93 Com. Dec 93/260 14.5.93	OJ L 120 15.5.93
Silicon carbide	Poland USSR	Under-takings	Com. Dec. 86/497 7.10.86	OJ L 221 6.8.92
Sodium carbonate	Bulgaria Poland Romania	Duties	Council Regulation No. 1306/89 11.589	OJ L 131 13.5.89
Synthetic textile fibres of polyester	Romania	Duties	Council Regulation 3017/92 19.10.92	OJ L 306 22.10.92
Urea	Hungary Romania	Undertakings	Com. Dec. 89/143 21.2.89	OJ L 52 24.2.89

Urea	Czech Repub., Slovakia USSR	Undertakings	Council Regulation No. 450/89 20.2.89	OJ L 7.11.87
Welded tubes of iron and steel	Romania	Duties	Council Regulation No. 868/90 6.4.90	

Source: Data provided by the Commission of the European Communities.

158. Safeguard measures are permitted if imports "cause serious injury to domestic producers of like or directly competitive products" or "serious disturbances .. or difficulties which could bring serious deterioration in the economic situation of a region". Thus damage - or "serious deterioration" - does not actually have to be established. It merely has to be a possibility. This new type of safeguard clause could clearly be used to undermine the whole intent of improved access. Apparently for that, the CEC have to rely on the good faith of the Commission rather than clear trade law. Experience with EU use of AD measures for protectionist purposes, not least against the Central European countries before their liberalization, does not encourage optimism with regard to that good faith. Nearly 50 per cent of Community AD actions have in the past been directed at the CEC. There is a clear danger that contingent measures may be used to constrain CEC exports in *any* sector where exports grow rapidly.

159. Whether the elimination of the special state-trading clause in dumping investigations is significant is doubtful. The usual Commission procedures foresee the use of "any other reasonable method" to estimate normal price where comparable domestic markets do not exist or the constructed cost method is inappropriate. Thus, the reference country method used for state-trading countries is still available. Secondly, price undertakings are likely to become less common with a large number of exporters replacing a single state trading company. This means that the rent from higher prices will accrue to the EU in the form of AD duties, rather than to the exporters as additional profits. Thirdly, the use of AD procedures will encourage price-fixing collusion among firms in the CEECT - quite inconsistent with the competitive behaviour that the EU says it wants to encourage. Finally, threats of AD (and safeguard) actions are a clear disincentive to foreign investment in the CEECT countries.

160. In addition, these clauses undermine confidence in the EU's political ability to aid the transition process. The threats of "contingent" protection will only be removed by accession of the CEC to the EU. Furthermore, since they include their own consultative mechanisms in the event of disputes about contingent protection, the agreements could undermine recourse by the CEC to the normal impartial GATT rulings.

161. The rules of origin are also damaging to CEC export prospects. Only goods which "originate" in the CEC area qualify for any improvement in access under these agreements. No more than 40 per cent (sometimes 50 per cent) of the value of output must be accounted for by imported materials, excluding those imported from the EU or, in the case of Poland, Hungary, the Czech Republic and Slovakia, from other Visegrad countries.

162. Another factor which has not been generally appreciated is that the loss of GSP status which occurred when the trade parts of the Europe agreements came into force has in some cases meant that CEC exports are treated less favourably as regards access to the EU markets than previously. In the case of Hungary, 17 products, mostly chemicals and textiles, with a total export value of $US 50 million in 1991, have had tariffs reimposed [Inotai, 1993].

163. Finally, the absence of any timetable for the accession of the CEC to the European Union is a blow to their aspirations. Such a timetable would encourage direct investment from abroad, both from the EU itself and from third countries. It would hasten the approximation of laws and product standards to those of the EU. It would further encourage the policy-makers and peoples of those countries to take difficult decisions and put up with the hardships associated with reform and restructuring in the interests of preparing their economies for membership.

164. The original Agreements even avoided a commitment to eventual membership, though that was agreed by the Council in June 1993 at Copenhagen. However, the commitment is very guarded. In particular it is conditional on "the EU's capacity to absorb new members while maintaining the momentum of European integration [Commission Communication to the Council, 18 May 1993, SEC(93) 646 final]." Given that that momentum will likely remain under strain throughout the long and rocky path to monetary union, this clause could give open-ended scope to certain member States for blocking membership of the CEC.

165. Beyond these objections in principal, there are indications that, despite the "asymmetry" in trade concessions, the agreements are not benefiting the CEC economies as much as might be expected, though it is obviously too early to draw firm conclusions from the statistics.

166. In 1992 Community imports from the CEC expanded by 17 per cent while exports to the CEC grew 22 per cent. The EU now has a trade surplus with all five countries, totalling 2.5 billion ECU, up from 1991's total of 1.4 billion ECU. In 1989 and 1990, the EU ran combined trade deficits with the CEC. Agriculture, mineral products and transportation goods exports from the EU to the CEC have expanded particularly rapidly.

167. Although continued protection may give temporary relief to hard-pressed EU firms, the EU as a whole will lose from restricting CEC access to its markets. The liberalization of the CEC should give great opportunities for investment and trade for the EU and other DMEs. But trade must ultimately balance, and that implies that the West must accept, and indeed firms and consumers can benefit from, increased imports from CEC. There are also dynamic gains. Improved access to Western markets would improve growth prospects in the CEC, both directly and by attracting more foreign investment. EU firms would find the CEC an attractive location for supplying their home markets. That in turn will stimulate growth and imports from the West.

168. But contentious issues will continue to arise. In 1992 the Visegrad countries only supplied some three per cent of EU steel consumption. Yet ceilings have been placed on Czech wire rod and on various hot- and cold-rolled products from both the Czech Republic and Slovakia. Now Eastern producers will certainly

be more careful about pricing their steel (to avoid charges of dumping) and surges in supply (to avoid triggering the safeguard mechanism). But frictions will continue and will probably from time to time lead to "contingent" protection by the EU in steel and in a number of other "sensitive" sectors. As Winters [1992] has put it, "The agreements are disappointing in the degree of support and encouragement they guarantee (to the CEC)... Indeed, they sometimes appear to be designed as much to minimize the adjustment that the revolutions of 1989 cause in the EU than to maximize the benefits that accrue to [those countries]."

169. The prospects for the **former republics of the Soviet Union** are less rosy. Trade concessions will be more limited than those in the Europe Agreements. There is little pressure from the members States for eventual membership of the European Union for these countries, even those traditionally considered to be within the borders of Europe, namely Belarus, Moldova and Ukraine. Perhaps more important, there is concern that the Russian Federation and, to a lesser extent, Ukraine present serious long-term industrial challenges to EU. For example, about two-thirds of the old CMEA steel-producing capacity is in the FSU. But the Community has not been slow to act. From the beginning of 1992, total imports into the EU of flat-rolled and long products from the FSU have been subject to quotas [Official Journal of 31.12.92, L396 p. 48]. Provisional anti-dumping duties have been applied to ferro-chromium from the Russian Federation, Ukraine and Kazakhstan since April 1993.

170. Partnership and Cooperation Agreements (PCAs) have been signed between the Commission and, separately, the Russian Federation, Ukraine, Kazakhstan and other FSU countries. The PCA with the Russian Federation came into force only in 1995.

(c) With EFTA

171. The **EFTA** countries have signed agreements with the former CSFR (effective 1 July 1992), Poland (effective 1 April 1993), Romania (effective 1 May 1993), and Hungary and Bulgaria (effective 1 July 1993). These agreements are very close to the Europe Agreements signed between those countries and the European Union. The goal is the progressive liberalisation of trade and eventually free trade by the end of the year 2001 for Poland, mid-2002 for the former CSFR, and the end of 2002 for Romania, Hungary and Bulgaria. As with the Europe Agreements, liberalisation is asymmetrical over time, with the EFTA countries moving sooner and faster.

172. The sensitive products identified in these agreements differ from those in the Europe Agreements, are fewer in number and vary with respect to the importing EFTA country. For example, lignite is "sensitive" in Austria. Fish is sensitive in Iceland. ECSC steel products are only sensitive in Norway and Sweden. Only Norway, Austria and Sweden retain tariffs on MFA products. Because of the limited use of exceptions to the general principle of immediate tariff-free and unrestricted access, the EFTA-CE agreements are significantly more liberal than the Europe Agreements, particularly since it is the most important exports of the CEC which the European Union continues to protect. However, as with the Europe Agreements, there are clauses dealing with other aspects of trade such as rules of origin, state monopolies, dumping, safeguards and competition rules.

173. Norway, Sweden and Finland have individually signed free trade agreements with Estonia, Latvia and Lithuania. Other "subregional" initiatives, still very much in their infancy, include a Black Sea Cooperation Area (Albania, Armenia, Azerbaijan, Bulgaria, Georgia, Greece, Moldova, Romania, the Russian Federation, Turkey and Ukraine) intended to promote cooperation in energy, ecology, transport, information and the removal of trade barriers, and the Organisation for Economic Cooperation (Islamic Republic of Iran, Pakistan, Turkey, Azerbaijan, Kyrgyzstan, Kazakhstan, Turkmenistan, and Uzbekistan), whose stated objectives are cooperation in trade, monetary and banking activities.

(d) With others

174. The **United States** modified its contingent protection by making the investigation rules, hitherto framed to deal with statetrading, more flexible to take account of the reform processes. Nevertheless, in June 1993 a countervailing duty was applied to steel sheet imports from Poland. The magnitude of the duty - 62 per cent - could effectively remove Polish steel from the United States market [EBRD 1993].

175. According to the Government of **Japan**, there have been no anti-dumping cases or resource to other contingent trade measures, and no quota regimes are in place [EBRD 1993] as regards the CEECT.

7. Integration into multilateral instruments

(a) MFN

176. Most of the CEECT now receive **most favoured nation** treatment. The EU has granted MFN status to all the CEECT. It also has some sort of trade and cooperation agreements with all the CEECT, though in the case of the CIS states, it is predicated on their acceptance of obligations under the former EU-USSR agreement. The United States extended MFN treatment to all the CEC between 1978 (Hungary) and 1991 (Bulgaria). However MFN treatment for Romania was suspended in November 1987, and restoration was rejected by the United States Congress in June 1992 [ECE 1992d]. The United States has trade agreements with the other CEECT, except Poland, Armenia, and the Baltic States.

177. The United States has granted MFN status to certain FSU republics - Armenia, Kyrgyzstan, Moldova, the Russian Federation, Ukraine and the Baltic States - but not yet to the other CIS states, which in order to qualify for MFN status must accept the terms of the US-Soviet Trade Agreement. Otherwise most of the DMEs now grant MFN status to all the CEECT. The most important exceptions are Norway and Sweden, which have not yet given it to the FSU republics other than the Baltic States.

178. MFN status is reckoned to have led to a doubling of a CEC's exports to the United States [Raffel *et al* 1977, quoted in OECD 1993] but to have meant much less to the FSU, since most of the latter's exports were natural resource goods and subject to low or zero tariffs.

(b) GSP

179. The CEC are no longer eligible for the EU's generalised system of preferences scheme, having signed the Europe Agreements. These are supposed to be major improvements on the GSP in terms of access to the EU markets, but in some cases, at least in Hungary, EU tariffs have been re-imposed on a number of products (see section 6 (b) above). The FSU States have been given GSP status on a "temporary and exceptional basis".

180. The importance of GSP for the FSU may be as much symbolic as practical. The significance of tariff-free access is particularly limited in this case as:

Most FSU exports are natural resource goods which in any event enter the EC market tariff-free; for most "non-sensitive" manufactures, tariffs are now relatively minor;

The EU GSP does not apply to agricultural goods where there is a CAP regime, and for other agricultural goods the tariff-preferences are modest;

The EU scheme as applied to the FSU exceptionally excludes textiles (except for the Baltic States which have accepted MFA-style quotas) and iron and steel products;

In the case of "sensitive" manufactures, the preference is constrained by quotas or ceilings. The FSU republics are included in quotas (now euphemistically renamed "fixed duty-free amounts") for most important chemicals, wood products, ceramic articles, steel and aluminium products, and motor cars.

181. Furthermore, the EU has also introduced a new rule so that GSP preferences are no longer allowable where there has been a finding of dumping. This is a barely veiled threat to beneficiary countries to keep their prices at a level which will not trigger complaints from EU industry.

182. The United States GSP scheme was initially extended to include the CEC (except for Romania, which was the first CEC beneficiary but whose eligibility was suspended in 1987) and the Baltic States, but only in late 1993 to the Russian Federation. Its extension to certain other CIS countries is presently under review. **Japan** has extended its GSP scheme to the CEC countries.

183. In the past, the GSP schemes of the CEECT themselves were not of great significance, because prices did not play an important role in determining the origins of imports. Now, with the introduction of price sensitivity in import decisions, these GSP schemes will become more meaningful. More details of the GSP schemes are given in annex A.

B. Problems encountered and further international support required

1. Market access

(a) Trade barriers

184. **Trade barriers to CEECT goods**: throughout the CEECT tough domestic policy and limited opportunities for expanding exports to other former CMEA countries mean that, for sustainable economic growth and the completion of the transition, continued and rapid expansion of exports to the West is required. The analysis of patterns of CEECT trade suggests that the potential for such an expansion is there. However, to realise it will require significant inputs of foreign investment, as well as an openness to the markets of the DMEs which goes beyond the GSP or other existing preferential arrangements.

185. The limitations of the GSP have been discussed in the last section. The Europe Agreements go further in providing for gradual trade liberalisation for the countries of Central Europe. However, there are significant delays in opening markets to the goods deemed sensitive by the EU, there is little additional access for agricultural products, and thirdly, there is the threat of contingent protection, particularly through anti-dumping measures, with insidious effects on investment and competition, as well as those on trade prospects. The belief - perhaps hope is a better word - that the approximation of competition laws in the CEC to those of the EU will avoid the problems of "dumping" and subsidies is naïve. There is far more effective competition throughout the NICs than in the DMEs, but the NICs have not been spared the rod of EU protection.

186. But there is another way in which the Europe Agreements and the TPAs with the Russian Federation and other FSU republics could worsen access for them to the EU market. All the agreements have clauses to allow for discussions about problems that arise over trade flows in either direction. The existence of that clause gives a pretext for one side to exert pressure on the other to restrain imports. The Commission can play "the nice guy" to the Council's "hard man". If the CEC do not show more self-discipline over exports of this or that, then the Council will insist on Draconian measures, perhaps invoking the safeguard measures. Certainly the EU has the bargaining power to force the CEC to toe the line. As an example, take the decision in early 1993 to ask Poland, the Czech Republic, Slovakia and Hungary to agree to a schedule of individual quotas on steel products, themselves to be subject to an annual review.

187. The extent to which the exporting countries will have recourse to GATT is doubtful. In any event the goal of these countries is EU membership as soon as possible, and they would be disinclined to jeopardise that by being non-cooperative. The Russian Federation and any other FSU republics can expect the same sort of appeal to "reasonableness" as the *quid pro quo* for better access through its TPA.

188. But even without the figleaf of liberal access which the Europe Agreements supply, the EU continues to seek to manage trade when sectoral problems arise at home. Earlier in 1993, the Commission threatened to set minimum prices on white fish in order to stem the increase from Iceland, Norway, Poland and the

Russian Federation. In response to Russian exports of aluminium, quotas have been considered to rule out new Russian imports [ECE 1993]. These actions are not targeted against the CEECT *qua* CEECT, but inevitably, with those countries desperate to build up exports to the West to replace markets in the East and at home, the CEECT will disproportionately bear the brunt for some time.

189. Two further points need to be made on contingent protection. Although the CEECT are in transition to market economies, even where most progress has been made (the Visegrad countries) they remain to some extent dominated by state monopolies, and the calculation of "normal" prices, so critical to anti-dumping inquires, is fraught with problems. The same problems arise in connection with the determination of subsidies. Under these circumstances, it is tempting to exploit the flexibility of the EU rules to reach a positive finding, or in the case of EU-CEC trade, resort to the new safeguard clause - as apparently happened in the case of Czech steel products just six months after the EU-CSFR agreement was signed.

190. An alternative approach would be greater restraint over recourse to contingent protection and consideration of the possibility of financially aiding the areas or industries in the EU hurt by the new competition. After all, improved market access is intended to speed the restructuring of the CEECT economies, which implies changes in the allocation of production between the EU and the CEECT. Rather than trying to hold up the necessary adjustment in the EU economies, the Commission and member States could help that adjustment to take place as smoothly and painlessly as possible.

191. As regards the MFA, the EU is committed to renegotiating the quotas on CEC goods and to giving them accelerated access relative to other MFA suppliers, i.e. the developing countries. Thus the interests of the CEC are directly pitted against those of Asia and Latin America. The only reasonable solution is to go through the products to try to identify those where quotas that were previously constraining on the CE producers can be substantially increased while minimising the damage to the developing country producers. In other words, all product differentiation between the CEC and the developing country suppliers should be exploited.

192. Trade in agriculture was largely excluded from the Europe Agreements, despite the importance of agriculture to the CEC. Of exports to the EU, agricultural products account for 24 per cent in Poland and 22 per cent in Hungary. Some existing concessions on minor products, namely hams, sausages, cheese and poultry, were consolidated, but for the major products, namely cereals, oilseeds, beef and dairy goods, the CAP rules unchallenged. The liberalisation in agricultural trade achieved in the Uruguay Round negotiations will be of benefit to all the CEC other than, at least in the short term, the Czech Republic. The exporting CEC countries will benefit both from higher prices and from better access to the EU market.

193. The Czech Republic and the FSU (as a whole) will lose in the short run. Both are net importers of temperate agricultural goods whose prices will rise as the agreement gradually reduces the amounts of North American and EU surpluses dumped on the world market. However, once greater progress is made in privatising

farms and as long as world prices are transmitted into domestic markets (at the moment two big "ifs", especially for the FSU), the higher prices should give their farmers an incentive to increase productivity. To the extent that they can produce surplus, there will be an incentive to sell on world markets as indeed Uzbekistan is already showing with cotton.

194. The West can help the transition process by opening its borders to agricultural imports from the CEECT. Clearly the EU has most to offer, given its proximity and the size of the EC markets. The EU already makes exceptions to the CAP principle of Community preference - for some African countries for beef, for some Caribbean countries for sugar. Similar concessions could be made to the CEECT for particular products without compromising the interests of the developing countries and keeping the CAP budgetary cost acceptable. Products include vegetables and potatoes, cut flowers, honey, pigmeat, poultry and eggs.

195. The above discussion has been couched in terms of what the European Union can do to improve access by the CEECT. This is because the EU is by far the largest trading partner for all the CEECT. Clearly, other DMEs must also contribute by opening their markets. The United States is as great a user of contingent protection as the EU. It included Polish and Romanian carbon steel in its grapeshot anti-dumping action against 19 countries in January 1993. It has said it would be flexible about the use of anti-dumping rules designed for state-trading countries in the present circumstances. Given the problems of calculating normal prices in the CEECT, "flexibility" may have to be stretched. For all DMEs with MFA protection, the agreement in the Uruguay Round are giving an opportunity for a more generous approach to the CEECT while carefully limiting the damage done to the developing countries.

196. In some of the matters discussed in this section there is scope for technical assistance from the West. It might be tempting to send experts to the CEECT to show how they can transform their plant to produce goods that do not compete with those produced in the EU or other Western markets. That would not be in the interests of Western consumers, or of the Western economies as a whole, who stand to gain from buying from the lowest-cost producers, whether they are at home or abroad. If, however, there are opportunities for differentiating their products, they could develop some new areas of comparative advantage. For example some of the CEECT are still producing low-quality clothing that competes with suppliers from the developing countries. There may be gains to both sets of producers from moving "up-market" as is happening already in Hungary and the Czech Republic.

197. A rapid restoration of intra-CEECT trade links is needed. That will happen as new contractual relations between enterprises within and between countries are built up to replace the central planning system of the past. This has happened rapidly in the CEC but has far to go in the FSU. However, the West can make a contribution through technical assistance in such areas as telecommunications and transport.

198. Development of services exports in the CEECT requires finance (for hotels, hospitals and sanatoria, etc.), which must largely come through joint ventures with Western firms. Obviously this is an area where technical assistance, and, for example, the EU's PHARE and TACIS programmes, have an important role to play.

199. The EFTA component of the PHARE programme is helping a number of CEC and Baltic countries in the areas of customs procedures, statistics and standardisation, all of which will in time contribute to the infrastructure necessary for the growth of intra-CEECT trade and East-West trade. There is room for strengthening these activities through the participation of other OECD countries which are not yet fully participating in Western technical assistance efforts, in particular human resource development.

(b) Clearing and settlement

200. **Clearing and settlement** are no longer serious problems among the Visegrad countries. Settlement takes place where necessary in hard currencies, but a number of inter-bank bilateral arrangements for clearing with their own currencies are in place. However, among the FSU republics, major difficulties continue. Different means of settlement have been arranged and in many cases collapsed - usually because of non-delivery of goods. As a result, there has been an increase in the use of countertrade.

201. In the case of the CIS countries particularly, entry into the world trading system is being held up by:

Lack of convertibility or alternative multilateral or bilateral clearing systems;

Delays in establishing commercial linkages based on market prices between domestic enterprises;

Uncertainty about future exchange rates or regimes, which makes comparison of costs of alternative sources difficult;

Lack of financing institutions;

Lack of knowledge of markets and marketing skills.

202. A rapid solution to debt rescheduling issues would be significant. There is also considerable scope for Western technical assistance in the establishment of financial markets, especially in staff training.

203. A multilateral payments union (MPU) for the FSU republics has been under discussion for some time. The extreme economic openness of the FSU as regards inter-republic trade means that, as they introduce their own currencies, required international reserves multiply (by a factor of five according to Bofinger and Gros [1992]). The problem is aggravated by solvency difficulties associated with emerging balance-of-payments deficits in some of the republics. A common fixed exchange rate system, similar to the EU's exchange rate mechanism, would not meet the problems of dependency on the monetary policy of the Russian Federation,

which has been so detrimental to price stability. If the republics were to run independent exchange rate policies - pegging, say to the ECU, or to a trade-weighted basket - an MPU, ideally combined with a customs union, would reduce transactions and precautionary demand for reserves and allow short-term balance-of-payments deficits to be financed.

204. One of the reasons for delay in the implementation of, or even the initiation of, official negotiations on an MPU is the disintegration of the monetary union based on the rouble. This may be desirable as regards control of the money supply and anti-inflation policy - the Baltic States, for example, have made great strides in cutting inflation since they established their own currencies - but from the short-term point of view of trade settlements and finance, it can only be negative. The Western countries should encourage discussions on an MPU, holding out the carrot of an initial contribution to the common reserves, possibly through the Bretton Woods institutions.

205. All CEECT lack adequate **export credit facilities** or other export support services. In the former Soviet republics the trade banks, which used to finance exports and whose guarantees were considered good risks by Western banks, and other suppliers of export finance and exporters themselves to the FSU can no longer depend on unlimited government support. This and the breakdown of so many trade contracts owing to supply disruptions have made these banks risk-averse, both with respect to financing exports and guaranteeing payments for imports. This damages exports directly. It means that production is weakened by difficulties in obtaining imported primary inputs and capital goods.

206. In the CEC, trade finance facilities are not quite in such dire straits as in the FSU. However, export credit agencies are being hampered by lack of capital and/or budgetary support, as well as shortage of expertise. Exporters are often ignorant of the role of export credit insurance.

207. Western ECAs also are under threat from their respective finance ministries owing to the extent of losses in recent years. This creates problems for Western exporters to the CEECT particularly as both country and enterprise risks are high. However, as far as Poland, the Czech Republic and Hungary are concerned, the supply of export finance for their imports is improving as the banks in those countries are privatised and recapitalised and their guarantees are increasingly acceptable to Western forfaiters and other institutions supplying export finance.

208. The Western countries could help in the provision of training in export credit insurance, export finance facilities, such as forfaiting, and the provision of export market information and other services for exporters. The EU PHARE programme has made banking and financial markets one of its core activities, and there is clear scope for assistance in the general area of export finance and insurance.

2. Direct foreign investment

209. Attracting **foreign investment** is a major challenge for the CEECT. It is crucial to supplement inadequate domestic savings, government borrowing on the world capital markets (now very difficult for most CEECT) and official

development and balance-of-payments support. It is also required as a source of managerial, marketing and technological know-how. It is essential as an additional source of funds for the privatisation process.

210. Trade and FDI are mutually reinforcing. Liberalisation leads to more FDI, which itself stimulates trade [OECD 1993, 79ff]. I have argued earlier that FDI will be increasingly directed towards export markets, both serving others in the region and the Western DME countries, in particular the EU. This emphasises the importance of maintaining liberal import regimes throughout the CEECT region, and it reinforces the arguments for further improving access to the DME markets. It also means that the privatisation process needs to be closely geared to attracting FDI. Decisions have to be made about the sequencing of privatisation by sectors and whether particular sectors would be better off with a few large, more medium-sized or many small firms. The services sectors are particularly underdeveloped in the CEECT. If they are to withstand the competitive rigours of the General Agreement on Trade in Services adoped within the Uruguay Round, certain sectors, including financial services, insurance and air transport, need to be strengthened, and that can only take place rapidly through joint projects with Western companies.

211. If the CEECT were to adopt certain internationally accepted codes, in particular the OECD Code on Liberalisation of Capital Movements, the National Treatment instrument, the OECD Current Invisible Code for Banking and Financial Services and the Guidelines for Multinational Enterprises, the FDI framework would be clarified and distortions in the allocation of investment would be reduced [OECD 1993, 86].

212. The Western Governments can help with technical assistance on the regulatory framework for FDI. This is required throughout the CEECT, but most especially in the FSU republics. Some of the many areas that might be covered include:

Property ownership and title;
Rules concerning compensation or restitution in the event of expropriation;
Forms of incorporation;
Environmental law and FDI;
Taxation and FDI;
Leasing and franchising;
Issues of intellectual property;
Mergers and acquisitions;
Financial instruments, including exchange risk hedges and offshore escrow accounts;
Loan documentation.

213. Developing the legal and competitive framework for privatisation, as well as improving the efficiency of certain service sectors - though this cannot substitute for FDI in those sectors - are also areas where certain CEECT could still benefit from Western technical assistance.

214. There are particular problems in **the conversion of the military-industrial complex**. Turning swords into ploughshares can never be easy, though the task in

the CEECT is aggravated by particular problems. The absence of technical know-how and trained personnel in those civilian sectors which might be considered obvious beneficiaries is one major problem: the skilled technicians in the defence sector may lack the skills necessary to make the transformations, whether it be adapting military products for civilian use or developing new products using the same skills. There is also the problem of the dispersion of expertise unless conversion projects are initiated immediately following the demobilisation of military units. Secondly, there is the often crippling lack of investment funds. FDI is the *sine qua non* for any quick progress in conversion. In the very short run, it is required to finance continuing research and experimental production in high-technology products where there are potential civilian applications. Otherwise valuable projects, including, just to mention two, hypersonic aircraft engines and the extraction of gold from uranium mines, will die as central government funds dry up.

215. On the other hand, the CEECT have major advantages in defence conversion over the United States for example. There is considerable pent-up demand for certain goods and services which are natural targets for the transformation of the defence industries. One is telecommunications equipment and networks, including satellite communications. Another is civilian air services. In the former, several joint ventures with Western European companies are already in place.

216. However, opportunities stretch much further than these sectors. An international consulting group has identified the production of titanium alloys, metal anti-corrosion protectives, energy production from sea water and medical applications of laser technology as excellent prospects for joint ventures with the military-industrial complex in the Russian Federation [ECE 1992b, 9-10]. This merely suggests the wide variety of opportunities available in conversion.

217. Several funds have been established, generally with United States private sector interest, to fund conversion within FSU defence industries. On the Western side, the EBRD in particular has the role of co-financing joint ventures with private sector firms and CEECT enterprises, though progress has been slower than some thought possible.

3. Summary of proposed measures

218. The outcome of this study suggests that the following support from the West would facilitate the process of transition in the CEECT:

> Following the 1992 OECD Ministerial Council communiqué which recommended that OECD member countries "should therefore support trade liberalisation in these countries by policies of import liberalisation in OECD countries, in general, as well as in sensitive sectors and areas where the CEECs (CEC in our jargon] and NIS (FSU republics) have significant export capabilities";
>
> Serious efforts to relieve the debt burden of the FSU republics, in particular the Russian Federation, if this burden ia not going to inhibit the integration of these countries into the international trading system.

The renunciation by the EU and the United States of the use of contingent protection, including anti-dumping, anti-subsidy actions or QRs, even where agreed with the exporting country, as instruments for coping with sectoral adjustment problems. Where justified, safeguard actions should be taken in accordance with GATT Article XIX.

The extension of all DME GSP schemes to all CEECT States:

The elimination of QRs on imports from the FSU republics. In the case of the EU, this implies that the Proposal cited in the last paragraph, so amended, be quickly accepted;

Technical assistance in the following areas:

(a) Developing the telecommunications and transportation infrastructure;

(b) The regulatory framework for trade and direct foreign investment, including its consistency with international rules and guidelines;

(c) Training in business skills, particularly export market research, export credit insurance, etc.;

(d) Training for government officials in export promotion.

Encouragement of regional trade agreements among the CEECT and between subsets of them and neighbouring countries, and the encouragement of the timely membership of Bulgaria, Romania and the Baltic States in the Central European Free Trade Area;

And, in the words of the same OECD Ministerial communiqué, "provide technical assistance in the identification and reduction of trade barriers, and support regional co-operation among these countries as a means to preserve efficient trade links and to foster the development of their trade".

III. IMPLICATIONS OF THE INSERTION OF THE CEECT INTO THE WORLD ECONOMY FOR DEVELOPING COUNTRIES: PROBLEMS AND OPPORTUNITIES

A. Emerging trends in trade, financial and investment relations between the CEECT and developing countries

219. As regards both trade and investment, the liberalisation of commercial activities in the CEECT in place of the traditional centralism and bureaucracy of a command economy creates an entirely new environment for the developing countries. Commercial decisions are now generally taken in the CEECT at the enterprise level. There are exceptions - the defence industries, in particular, and certain of the smaller FSU republics have not yet made major inroads into the central planning system - but in general the enterprises decide what to produce, where to sell it and where to buy their inputs. They are in a position to enter joint ventures with foreign firms, while foreign enterprises are generally free to invest in and operate commercial and productive enterprises in the CEECT. The economic links between the CEECT and the developing countries are now less the result of political interests or national economic strategies, such as ensuring the future supply of some commodity by entering into long-term intergovernmental agreements.

220. Economic ties between East and South are now based on the same principles as those governing West-South relations: that is, most links are based on the initiatives of individual private sector enterprises driven by market principles. What has made the transition particularly hard for enterprises on both sides is the frequent lack of an adequate intergovernmental legal and administrative framework for trade and investment, dealing with such matters as double taxation, disputes procedures and so on. Bilateral investment agreements have taken precedence over the needs of enterprise relations between East and South.

1. Trade

221. Table 15, with appendix tables 2 to 6, show that CEECT trade with the developing countries has fluctuated a lot in recent years. Generally, as a share of overall trade, both imports and exports, it diminished in importance over the decade of the 1980s [see Graziani 1992 for a detailed analysis]. This trend was at 01-variance with the announcement of the CEECT at UNCTAD V, renewed at UNCTAD VI, declaring their willingness to raise imports of manufactures and semi-manufactured goods from developing countries.

Table 15

CEECT: trade shares with major groups, 1989, 1991, per cent[a]

	Imports					Exports				
	1988	1989	1990	1991	1992 (b)	1988	1989	1990	1991	1992 (b)
CEC: trade with										
CEC	9.5	8.9	7.2	5.6	4.5	10.5	10.0	8.2	7.0	5.9
FSU	23.5	21.3	18.4	17.4	15.1	35.3	33.3	29.5	23.8	13.8
DMEs	55.5	57.3	61.7	65.0	73.7	41.1	44.7	51.4	58.9	76.6
DCs	11.5	12.4	12.7	12.0	6.7	13.0	12.0	10.9	10.3	10.8
FSU: trade with										
CEC	26.1	21.7	19.4	14.6	10.2	26.5	23.8	19.7	15.5	15.0
DMEs	65.5	68.3	70.3	75.0	75.7	55.3	59.7	66.8	74.5	86.4
DCs	8.4	10.0	10.4	10.4	14.0	18.2	16.5	13.5	10.0	14.5

a: Growth rates are calculated on $US values. The former German Democratic Republic is included in DMEs throughout. CEC as "reporter" includes fm. Yugoslavia, as "partner" does not. b: Based on incomplete data: figures for CEC are for first 3 quarters and exclude Bulgaria: figures for FSU refer to the Russian Federation; trade with other republics is excluded.

Sources: UN 1992, ECE 1993.

222. The data for 1991 and 1992 are very unreliable owing to the breakdown of centralised trading and, with it, the collection of statistics. Now profit-conscious firms are unwilling to spend much time on supplying statistics to central government or may be engaged in illegal or semi-legal activities or simply want to avoid taxes. In any event the data for the more recent years probably progressively understate the actual value of trade. It is not clear, however, why that should seriously distort the shares of different groups of countries.

223. Whatever their shortcomings, these data do not suggest any consistent pattern in the period since 1988, except for a steady rise in the share of the DMEs in CEECT trade. In CEC trade, developing country shares have fallen but reflect the rise in the DME shares rather than a fall in the absolute value of dollar trade. In the case of the FSU, imports from the developing countries have risen as a share but fallen in absolute terms because of the dramatic fall in the value of imports (appendix table 5). FSU exports to the developing countries fell over 60 per cent between 1990 and 1991 alone.

224. This report assumes that trade links within the CEECT economies will be largely restored, not to their pre-1990 levels since those were biased by the conscious policy of CMEA autarky, but to a level consistent with the resource endowments and other comparative advantages of the respective economies. Much

of the trade between the FSU States and the CEC, and within the FSU, is being choked off by problems of shortages of hard currency and disruptions of the productive system. However, the restoration of natural trade links within the CEECT by no means threatens the trade of the developing countries. The value of developing countries' exports has suffered badly from disruption in the FSU. This trade should be re-established as the FSU republics return to some political and economic stability. In the following section, I look at the prospects for developing country exports over a longer horizon.

(a) The price effect: redefining trade links with developing countries

225. **The price effect**: enterprises in the CEECT are now free to choose sources of supply based on market criteria, including price, rather than being allocated supplies by a central importing agency. The losers will be those developing countries which for political or strategic reasons, enjoyed a special relationship with the CEECT (see table 16). Several of these countries may be able to retain those shares by dint of competitiveness and their familiarity with the CEECT markets. Countries that will be badly hurt include Cuba, the Syrian Arab Republic and, though there are no data, almost certainly the Democratic People's Republic of Korea, Mongolia and Viet Nam.

226. Among the countries in table 16, Cuba was a formal member of the CMEA. So were Mongolia and Viet Nam, but reliable data are not available. Afghanistan, Angola, Ethiopia and Nicaragua were associated members (though again in some cases there are data problems). Others - Algeria, Egypt, India, the Islamic Republic of Iran, Pakistan and the Syrian Arab Republic had formal trade agreements with the CMEA.

227. The resourcing of imports from the socialist or "socialist-inclined" countries (as some countries were formally designated) is already obvious in the imports of Poland (see appendix table 14). Leading developing country exporters to Poland in 1988 were the former Yugoslavia, China , Brazil, India and Iraq. In 1991 they were the Islamic Republic of Iran, former Yugoslavia, the Republic of Korea, Singapore (which functioned mainly as an entrepôt centre for other South-East Asian countries) and Hong Kong. Among the top 11 developing country exporters, Iraq, the Democratic Republic of Korea, Cuba and Viet Nam disappear altogether. In the case of commodity imports alone (appendix table 15), the significance of China as a supplier of food and raw materials, and Cuba of tobacco, diminish radically and Turkey and Indonesia become much more important. China also diminishes as relative supplier to Hungary between 1988 and 1991, though, since Hungary had already made significant strides towards decentralisation of decision-making to enterprises, the switch in the leading third world exporters is less clearly ideological than in Poland's case (appendix table 16).

228. The most important developing country exporters to the FSU in absolute terms were Cuba, India, China, the Syrian Arab Republic, Viet Nam and the Democratic People's Republic of Korea (see appendix table 18). Under our classification, Yugoslavia would also feature here. Recent data on the geographical structure of the FSU republics' imports is not available but it is probable that this pattern has already changed significantly. The republics no longer accept their old managed trade arrangements with these countries and are

keen to conserve their hard currency by buying at world market prices. Cuba is probably proportionately the greatest loser in that its sales of sugar to the CMEA countries were its main source of credit for energy goods and manufactured imports. The CEC were also obliged to buy Cuban sugar at inflated prices, though in some cases such as Hungary, already self-sufficient in sugar, these supplies were resold at a large loss on the world market (though in return Cuba obtained machinery and armaments not readily available elsewhere).

Table 16

Socialist or non-aligned DCs: export dependence on CEECT, last available year, $US m., per cent

	Year	Exports to CEECT, $US m.	Share in exports
Afghanistan	1988	239.9	51.5
Algeria	1989	162.8	1.9
Angola	1988	4.0	0.3
Bangladesh	1989	61.3	4.7
Cuba	1989	4944.6	86.7
Egypt	1989	455.4	17.2
Ethiopia	1989	49.9	11.1
India	1989	2205.6	14.1
Indonesia	1990	153.3	0.6
Iraq	1989	581.2	5.3
Iran, Islamic Republic	1989	534.1	4.6
Libyan Arab Jamahiriya	1989	382.6	4.5
Nicaragua	1986	12.6	6.2
Nigeria	1989	8.1	0.1
Pakistan	1989	190.3	4.1
Syrian Arab Rep.	1989	1259.4	41.9
fm. Yugoslavia	1990	4065.2	28.3

Source: UNCTAD, Handbook on Trade and Development, 1992.

229. Graziani [1990] pointed out the specialisation of trade between the FSU and the developing countries. Soviet imports were dominated by food and raw

materials. In 1986, only 18 per cent of imports were manufactures, compared with 47 per cent for the Western industrialised countries. Secondly, the Soviet Union imported only a few products or groups of products from each country: cereals, soybeans and seed oils from Argentina; sugar, oilmeal and cocoa beans from Brazil; fuels from Algeria, Libyan Arab Jamahiriya, Iraq and Afghanistan; and so on. India and Yugoslavia were the only developing countries with a well-diversified mix of exports, two-thirds and three-quarters respectively being manufactures. Even in the case of manufactures, trade was very concentrated. Almost all cotton yarn came from four countries, namely, Egypt, Viet Nam, Syrian Arab Republic and Peru; almost all cotton fabric from India, Pakistan, Syrian Arab Republic and China.

230. This specialisation was encouraged by increasing countertrade, including barter agreements (whereby all revenues from Soviet exports to certain countries were to be spent on imports from those countries, with a specified proportion going on manufactures), "conversion" deals or "product buy-back" arrangements. Imports of machinery and equipment from the developing countries were limited but did include a number of Indian high technology products such as computer peripherals, as well small quantities of Brazilian cables, computer components and platforms, Mexican pipes, and Peruvian personal computers.

231. With increased price sensitivity and the elimination of the managed trade links with the CEC, the FSU States may look to the developing countries as more significant suppliers of manufactures. Barter, "conversion" or "buy-back" arrangements may not feature as much as in the past, since they are more difficult to arrange where individual enterprises are responsible for import and export decisions.

232. A rough and ready experiment was performed in order to derive some idea of the implications of allowing free market trade between the CEECT and the developing countries. The idea was to compare imports of the CEECT from the developing countries with those of EU member States at similar levels of per capita GNP in 1988, adjusted for population size. For the CEC, using the EU States as "comparators" seems appropriate, since they are, in very rough terms, similarly endowed (or "unendowed") with natural resources and approximately equidistant from most developing countries. For the FSU, there are much more serious problems in suggesting that it would import from the developing countries in the same way as EU member States. However, for want of any other suitable comparator, I followed the same procedure.

233. The CEC and the FSU were treated separately. The average per capita income of the CEC in 1988 was some $US 5,612 (using PlanEcon data [Collins and Rodrik 1991, 7]). There is no country with a similar income in the EU, but taking Spain, Portugal and Greece in the proportions 0.5:1:1 gives a mythical country with a per capita GNP of $US 5,943, quite close enough given the uncertainties of the income data and the crudeness of the exercise. In the case of the FSU, there were more problems with discrepancies in estimates of per capita GNP. Average estimates by Heston and Summers, PlanEcon and the CIA give $US 7,015, while Spain's per capita GNP for 1988 is estimated at $US 7,740. Give the uncertainties surrounding the FSU figure, this difference was considered as acceptable. The 1991 imports of the comparators, adjusted for population size,

from the 20 developing countries which, in each case, exported most to the CEC and FSU are given in appendix table 20.

234. The results have the imports of the CEC rising by a factor of five. That is, if the CEC had been importing from the developing countries to the extent of comparable EC countries, they would have been importing a total of five times as much from their 20 largest developing country suppliers. So it is hardly surprising that none of these developing countries, other than Yugoslavia, would actually have exported less than they did in practice[1]. It should also be noted that the pattern of CEC imports had already changed by 1991, reflecting the new decentralised decision-making process. These results show how much further it has to go to the benefit of the developing countries.

235. The Soviet Union's imports from the developing countries in 1991 would also have been radically different, in this case some four times greater, if it had not been for the system of central planning and CMEA preference. Again, Yugoslavia would have sold less, as would have the Syrian Arab Republic and probably Afghanistan and Mauritania. But in both the CEC and the FSU cases, most, and certainly the larger, developing countries with special links with the CEECT would have done much better under a free market. India and Egypt are in this category.

236. The reorientation of trade will take time to materialise, though the re-assignment of orders may be more constrained by access to hard currency, and, at least in the FSU, by badly battered effective demand, than historical ties. So far, the major beneficiaries of liberalisation have been DME exporters. Over the next few years, the developing countries are likely to share much more in the benefits.

(b) <u>The income effect: the effects of transition on growth and trade</u>

237. **The income effect** on developing country exports of the boost to GDP growth in the CEECT, associated with the transition to market economies, is even more difficult to assess than the price effect. In a very broad-brush bid to evaluate the rough order of magnitude, an exercise analogous to that described in the last section was carried out. In this case, I have simply assumed that, by a given date, the FSU and the CEC will have reached the average EU per capita GNP of 1988. Adjusting for population size gives hypothetical imports from the 20 largest developing country exporters of some eight times the pre-transition volume (see appendix table 22).

238. Unsurprisingly, all the individual exporters gain though there still may be some question about Afghanistan, Cuba, the Democratic People's Republic of Korea and Viet Nam, which are excluded from the United Nations data base.

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[1]It should be noted that here we have used UN Directions of Trade data, which exclude Cuba, the Democratic People's Republic of Korea and Viet Nam - countries which might well have suffered an adverse movement. Their exclusion also means an overestimate of the hypothetical increase in imports from the developing countries. These remarks apply *a fortiori* to the FSU.

239. Of course, any figure on the effects of the transition on income levels in, say, 10 years' time is pure speculation. And, for any given level of output per capita by whatever terminal period we choose, the structure of demand and of inputs to the productive process will have changed to reflect changing tastes and changing technologies. In particular, reduced inputs of raw materials and energy per unit of output will be required. Nevertheless, whatever the arguments about the magnitudes, growth in the CEECT is going to lead to major increase in imports from the developing countries, over and above those generated by decentralised decisions and discussed in the last section.

240. The transformation of the CEECT economies, and the accelerated economic growth that this should produce, will provide opportunities for the developing countries to expand their exports into new fields. This could take the form of greater specialisation, but based on factor endowments or intra-industry trade rather than the artificial specialisation of the past. It could also involve moving to more technologically advanced goods. Trade between the developing countries and the CEECT has, like West-South trade, been based on the exchange of manufactured goods from the East for natural resource products from the South. Food, raw materials and fuels dominate FSU imports from the developing countries. In the case of the CEC, food is less important and fuels more so, but with raw materials, fertilisers and minerals and metals, they account for the bulk of imports from the third world.

241. During the 1980s, fuel products were the fastest-growing group of imports by the CEECT from the developing countries, because the supplies of FSU oil and gas were insufficient to meet rising demand in the region. The share of manufactures and semi-manufactures has risen slowly. However, there are now signs that that might be changing. The weight of the NICs as exporters of industrial and consumer products in CEECT imports has been growing. The strength of the NICs will develop with the elimination of bureaucratic restrictions in the CEC, a process largely completed but not yet reflected in the trade data.

242. Gáspár and Sass [1992] have looked at the rôle of seven NICs - Hong Kong, Singapore, Republic of Korea, Indonesia, Malaysia, Brazil and Mexico - in Hungary's trade. Their data went up to 1990 and over the period from 1980 they found no significant changes in the weight of these countries in Hungary's overall trade (imports plus exports) with the developing countries, though these NICs made a major contribution to Hungary's deficit in consumer goods. However, the 1992 figure shows a sharp rise in these countries' share of trade in the developing countries' total. Indeed, it jumps from 23.1 per cent in 1990 to 28.5 per cent in 1992.

243. Gáspár and Sass report that the NICs' exports were in line with factor endowments, that is a gradual shift away from labour-intensive products (Hong Kong, Singapore and Republic of Korea) and labour/resource-intensive products (Indonesia, Malaysia, Brazil, Mexico) to capital-intensive products. They expect exports to Hungary from these countries to rise 70 to 80 per cent over the 1990s, partly as these countries use Hungary as a base for penetrating other CEC markets.

244. The South-East Asian NICs are well placed geographically to become major exporters of high-technology industrial and consumer products to the Russian Federation, especially if the proposed special economic zones in the far eastern region are established. Russian trade with the developing countries has been particularly concentrated on a few, non-aligned countries. As the Russian market opens, the NICs will be able to exploit their flexibility in adapting products to local requirements and their competitiveness on world markets to make major inroads, probably even into some sectors where the Russian Federation is perceived to have a comparative advantage itself, namely, cars and communications and other electronic equipment.

245. As Dioumoulen [1992] has pointed out, the NICs are also impressive importers. "Thus, NICs can supply Russia with capital and high-technology products, food items and consumer products, receiving back quite a number of products (raw materials, fuels, heavy machinery and equipment, specialised technology and certain other items)" [Dioumoulen, 1992 55]. Moreover the NICs are already experienced in intra-industry trade at the enterprise-to-enterprise level and will want to pursue joint projects with the Russian Federation, and, eventually, with other FSU republics.

246. The NICs, then, are likely to grow in importance as exporters to the CEECT. In general, though, increased CEECT demand for capital and intermediate goods will benefit the advanced industrial countries; only certain developing countries will be able to fully share in the benefits in the next decade.

247. In this context the outlook for trade in agricultural goods should be mentioned. Yields in the CEECT are generally far below average OECD levels and often below world averages. With the privatisation of farms and the increased incentives and better management that that provides, with the flow of new technology in the form of food additives, fertilisers and pesticides, and with better techniques for animal husbandry, yields could rise sharply. There is enormous potential for increasing exports of cereals in the case of all the CEECT (with the exception of the Czech Republic), of oilseeds in the case of Hungary, Romania and Bulgaria, meat in the case of Hungary and dairy products in the case of the Czech Republic, Slovakia and Poland [Rodrik and Collins 1991, 53]. As long as the workings of the CAP prevent these goods from entering the EU, they will be sold on the world markets, depressing prices and damaging the agricultural economies of the third world.

248. On the other hand, for the CEECT to reach these levels of per capita GNP within a medium-term time frame predicates a more open access to Western, particularly EU, markets for their agricultural and manufactured goods. It also presumes a continuation of liberal import policies in the CEECT, which again is contingent on much better access to the EU market. The outlook for such access is good for the CEC, whether or not they are admitted as full EU members. For the others, it cannot be taken for granted. It requires CAP reform beyond that presently agreed. For manufactures, in particular the sensitive areas of chemicals, steel and textiles and clothing, it requires the radical liberalisation of current protection.

249. While this report tends to lump together the CEC or the FSU republics, it is clear that all the individual States in either of these groupings will not reach the EU level of per capita GNP at the same time. Certainly the Visegrad countries are likely to reach that level first. Beyond that, the race is open and no useful purpose can here be served for backing any particular horses. The point is, however, that the process of the adjustment of CEECT imports from the developing countries to "normal" levels will be spread over many years. These delays should be exploited by the developing countries in order to identify and invest in the export sectors appropriate to their productive resources and to their emerging markets.

(c) Competition on third markets

250. **Competition on third markets**: Möbius and Schumacher [1991] have identified industrial products where competition between the CEC and the developing countries on the EU market is currently most acute. These are listed for products where the share from any CEC exceeds 0.5 per cent in table 17. The striking feature is that the shares are so low. Only in petroleum and its products and wood do they exceed three per cent. Secondly, the seven most important products are largely unprocessed raw materials. Of the remainder, five are basic engineering products and five are in the clothing and footwear categories [Stevens, 1992, 39].

251. Arguably, what is of concern to the developing countries is not competition on third markets under the present structure of output in the CEECT and the present trade regimes. Rather it is future changes in those structures and in those regimes that could pose a problem. We must consider:

Medium-term changes in the structure of CEECT exports and competitiveness;

The implications of the Europe Agreements;

The implications of the Uruguay Round of Agreements.

252. First, consider **changes in the structure of CEECT exports**. Collins and Rodrik [1991] identify some of the areas where the CEECT should expand their exports to the West: processed food, textiles, footwear, fertilizers and insecticides, telephones and bicycles. The NERA study [Stern *et al.* 1993] emphasises chemicals, metal goods, engineering goods, vehicles and paper. Hamilton and Winters [1992] argue that the CEECT countries, where educational levels and technical skills are generally high, are likely to develop comparative advantages in goods that are intensive in human capital. Dioumoulen [1992] argues that the Russian Federation has built up a comparative advantage in heavy machinery, clocks and watches, military equipment, communications, electronics and aviation and aerospace equipment.

Table 17

The most important industrial products[a] imported by the EU from CEC and the main competitors[b], 1989

CN	Product	Import share (%)	Three most important competitors
2710	Petroleum oils other than crude	19.83	Kuwait, Libya, Algeria
2709	Petroleum oils, crude	14.07	Libya, Saudi Arabia, Iran
4407	Wood sawn lengthwise; thickness > 6 mm	4.09	Canada, United States, Malaysia
2711	Petroleum gases and other gaseous hydrocarbons	2.97	Algeria, Saudi Arabia, Libya
7502	Unwrought nickel	2.90	Canada, Zimbabwe, United States
7403	Refined copper and copper alloys; unwrought	2.30	Chile, Zambia, Zaire
2701	Coal; briquettes and solid fuel made from coal	2.19	United States , Colombia, Canada
8703	Motor cars, etc. for the transport of people	2.19	United States , Brazil, Yugoslavia
9403	Other furniture, parts thereof	1.64	Yugoslavia, Taiwan, Prov. of China, United States
7102	Diamonds, not mounted or set	1.60	India, Liberia, Israel
7208	Flat rolled products of iron; hot rolled	1.36	United States , Brazil, Turkey
7601	Unwrought aluminium	1.25	Ghana, Yugoslavia, Brazil
6204	Women's/girls' suits, breeches, shorts, etc.	1.13	Hong Kong, Yugoslavia, Turkey
6203	Men's/boys' suits, breeches, shorts, etc.	1.11	Hong Kong, Yugoslavia, Tunisia
7204	Ferrous waste and scrap	1.03	United States, Yugoslavia, Canada
5201	Cotton, carded not combed	0.97	United States, Pakistan, Turkey
2902	Cyclic hydrocarbons	0.95	United States, Canada, Brazil
7108	Gold, unwrought/semi-manufactured/ powder form	0.94	Canada, United States, Zimbabwe
4703	Chemical wood pulp; soda; non-dissolving	0.94	Canada, United States, Brazil
9401	Certain seats	0.80	Yugoslavia, United States, Taiwan, Prov. of China
6403	Footwear with uppers of leather	0.71	Rep. of Korea, Brazil, Taiwan, Prov. of China
2844	Radioactive chemical elements and isotopes	0.68	United States, Niger, Canada
2707	Oils; other products of high temperature coal tar	0.63	United States, Libya, Yugoslavia
7216	Angles, shapes etc. of iron/non-alloy steel	0.54	Yugoslavia, Turkey, Egypt

a: 4-digit classification of the Combined Nomenclature (CN).
b: Only developing countries and territories, United States, Canada.
c: Share in total supplies of the goods by the respective country.

Source: Möbius and Schumacher.

253. Examination of the components of the latest surge in exports from the CEECT to the EU indicates that, though the bulk consisted of traditional exports, there were significant quantities of metal and mineral goods, office machinery, electrical engineering products and motor vehicles.

254. Any attempt to identify those developing countries most at risk from increased CEECT competition is fraught with difficulty. However it could be of interest simply to look at the developing countries which are major exporters of the products that seem likely to emerge as future exports of the CEECT to the EU. We have taken two one-digit SITC groups and five two-digit groups and listed the major developing country exporters in table 18.

Table 18

Largest developing exporters of selected product groups to the EU, 1991

SITC 5 Chemicals and related pdts.	SITC 64 Paper, paperboard and related pdts.	SITC 65 Textiles, fabrics, made up articles	SITC 66 Non metallic mineral manufactures	SITC 69 Metal manufactures	SITC 7 Machinery and transport equipment
China	Brazil	China	India	Taiwan, Prov. of China	Taiwan, Prov. of China
Yugoslavia	Yugoslavia	India	Zaire	China	Singapore
Brazil	China	Pakistan	Thailand	Rep. of Korea	Rep. of Korea
Saudi Arabia	Taiwan, Prov. of China	Taiwan, Prov. of China	China	Yugoslavia	Hong Kong
Singapore	Saudi Arabia	Iran	Hong Kong	Hong Kong	Malaysia
Morocco	Hong Kong	Indonesia	Taiwan, Prov. of China	India	China
India	Rep. of Korea	Hong Kong	Yugoslavia	Singapore	Yugoslavia
Rep. of Korea	Indonesia	Brazil	Liberia	Brazil	Brazil
Rep. of Korea	Venezuela	Yugoslavia	Brazil	Thailand	Thailand

Source: OECD, Trade by Commodities, 1992.

255. Apart from the rather unexpected appearances of Liberia and Zaire, this table identifies a set of countries dominated by the NICs of Latin America and South East-Asia, with a sprinkling of fast-growing ASEAN or South-Asian countries. Most of these have a reputation for being flexible and tenacious and reluctant to surrender their market shares without a struggle. Moreover, they are well practiced in adapting their output - or country of manufacture - to cope with trade barriers and competitive pressures. But this table tells us nothing about the importance of any group of exports to the EU in the total exports of the developing country, still less about the vulnerability of those exports to competition from the CEECT or the flexibility with which the country can switch to other products.

256. Improved access to the Community market for the CEC through the **Europe Agreements** means that in certain sectors these countries now have, or will have over the course of the next five years, preference over developing countries. The areas where such preference will be significant are very limited, but the areas in which existing developing country preferences will be eroded by new preferences for the CEC are more widespread.

257. It is useful to distinguish the ACP States from other developing countries. These are granted tariff-free entry for all industrial goods, unconstrained by QRs. Thus, subject to the effects of contingent protection, the CEC should, over five years, gain the same conditions of access to the EU markets for their manufactured exports as currently enjoyed by the ACP States. However, the ACP States export little in the form of manufactures to the EU. The only significant ACP manufacturing exports which might be hurt are clothing and textiles.

258. The non-ACP States enjoy duty-free access through the GSP, though for a range of products this is limited by tariff quotas (TQs). The most important areas controlled by TQs are chemicals, some non-ferrous metals, iron and steel products, fibreboard and plywood, footwear and clothing and textiles. Many of these products are treated as semi-sensitive or sensitive by the Europe Agreements.

259. The effects of the erosion of the tariff preferences of the developing countries depend on the extent to which those countries export the goods in question, and in the case of GSP preferences, which are conditional on detailed rules of origin and other requirements, on the extent to which they actually benefit. As for the latter, in 1990 GSP beneficiaries received GSP treatment on $US 19.0 billion of a total of $45.3 billion of exports of industrial goods covered by GSP (or 41.8 per cent), or of a total of $74.6 billion (25.4 per cent) of dutiable industrial exports. While the rules of origin applicable to CEC exports are no less strict than those applying to GSP exports, the share of CEC exports receiving preferential treatment is likely to be much higher. Problems of bureaucracy or ignorance of the scheme are likely to be less, and the TQ affecting CEC exports will gradually disappear.

260. Where the CEC would appear to gain immediately in tariff-free access and the elimination of TQs over GSP beneficiaries is in the so-called "standard" products, mainly non-ferrous metals (such as copper and aluminium) chemicals, fibreboard and plywood. They will gain through the immediate abolition of TQs for semi-sensitive and sensitive products, i.e. iron and steel products, footwear and non-MFA textiles.

261. But a detailed examination of trade patterns in individual products is required to determine the extent of the erosion of existing preferences for the developing countries. As with the effects of all major changes in trade regimes, the devil is in the detail.

262. A search was undertaken to identify at the 6-digit SITC level those goods where 1991 exports from the CEC were both significant in magnitude and appeared to be in direct competition with those of developing countries on the EC market.

Details of 1989 export values and tariffs and non-tariff barriers for the corresponding tariff lines (Harmonised System, 8-digit classification) were then extracted from the UNCTAD "TRAINS" data bank. The number of products turned out to be very limited (see appendix table 22)[4].

263. What these data show is that, for certain products, the tariff-free access of GSP products has been matched by tariff-free access for CEC goods. Several of the sectors involved are sensitive and the EU limits GSP treatment by tariff-quotas. TQs have been abolished for the CEC, giving those countries an extra preference. In only one case - pig iron - is there an actual tariff preference in favour of the CEC. In general, it is the NICs and ASEAN countries of South-East Asia and Latin America that will feel the brunt of increased competitiveness on the part of the CEC, though a variety of African countries exporting iron and aluminium also show up in the table.

264. Another aspect of the Europe Agreements is the preferential phasing-out of MFA quotas for the CEC in comparison to the Uruguay Round Agreements. This is significant for the Mediterranean countries, a few ACP countries, notably Kenya, Mauritius and Zimbabwe, and a large number of Asian and Latin American countries. The Mediterranean countries are not subject to MFA restrictions but have accepted a range of "voluntary" export restraints on their exports of textiles and clothing to the EC. In that sector the Europe Agreements will accelerate the elimination of MFA quota restrictions on CEC products.

265. None of the non-MFA textile categories are significant as CEC exports. In the case of MFA textiles and clothing, as has been pointed out the CEC will have the benefit of accelerated liberalisation in comparison to the Uruguay Round Agreements, but the damage to the developing countries could be kept to a minimum by carefully selecting the sequence of quota liberalisation and taking every advantage of differences in the product mix between the CEC and other quota-constrained exporters.

266. As regards agricultural goods, the CEC countries will remain subject to CAP regulations where applicable. On non-CAP goods, in particular duck and goose meat, pork, some poultry, rabbits, live horses, some dairy products, some fruit and fruit products, the concessions granted prior to the Europe Agreement are preserved. In general these products are not significant exports for the developing countries. The ACP preferences on cut flowers, soft fruits and some vegetables coming from certain African countries, in particular Kenya, will be eroded, as will the GSP preferences on the same goods from Latin America.

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[4]The latest available trade flow data in the "TRAINS" data bank refers to 1989 and in some cases the value of CEC exports in 1989 is low. However the corresponding figures for 1992 will in most cases be larger owing to the expansion of CEC exports to the EU following the breakdown of the CMEA payments system and recession in the CEC countries. EU Statistical Office data show that CEC exports of chemical products rose 40 per cent in money terms between 1989 and 1992 and exports of base metals and articles by 46 per cent. Exports of all merchandise rose 87 per cent. However, more recent data still would not indicate the effects of the Europe Agreements, (the trade sections of) which only came into effect in 1992 or 1993.

Although the CEC products are not usually under the same tariff headings as those from the developing countries where the climate is much warmer, they are often close enough to be substitutes.

267. But, taking a somewhat longer perspective, the CEC economies can only achieve sufficient strength and competitiveness to be accepted as ripe for EU membership if the EU markets are adequately opened to their exports in CAP goods and textiles and clothing, which are either excluded from the Europe Agreements or are conditional on a multilateral phasing-out of the MFA respectively. Further access can be achieved through a generalised liberalisation, as a result of the implementation of the Uruguay Round Agreements. Alternatively it can be effected through additional preferences by way of extensions to the Europe Agreements. The alternative courses would have very different implications for the developing countries which, under the latter, would find their exports facing new discrimination on the EU market.

268. To sum up, in the short term, developing countries' exports of industrial goods are not widely threatened by the improved access of the CEC to the EU market. Barrier-free entry for CEC products, immediately for non-sensitive and over five years for sensitive goods (including clothing and textiles when the MFA is phased out by the implementation of the Uruguay Round Agreements) will inevitably erode the preference margins currently enjoyed by the developing countries. The ACP States in general export few manufactures and will be little affected in the short run, though in the longer term the development of manufactured export sectors will be marginally more difficult. In a few cases African ACP and Mediterranean exports will face additional competition from the erosion of their preferences. In the textiles and clothing sector, the accelerated dismantling of MFA restrictions and easier access for non-MFA goods will temporarily improve CEC competitiveness over the Mediterranean and the few current ACP suppliers. For the time being it will be more difficult for new ACP suppliers to enter the EU market.

269. In the case of the non-ACP developing countries, it is the countries of South-East Asia and Latin America that will be most affected through the erosion of the value of their GSP status. This will be aggravated by both the poor uptake of GSP benefits and the restrictions on their availability through tariff quotas. CEC exports will be less affected by these problems. Even the remaining tariff quotas will be phased out over five years.

270. As for agricultural products, the CEC will continue to be constrained by CAP rules which preserve the principle of EU preference. The ACP States, and to a large extent the Mediterranean countries, will continue to benefit from their special status, which for most products allows free access and for others a privileged import regime. The non-ACP countries will find their relative position vis-à-vis the CEC unchanged.

271. In the short term, the impact of the European Agreements on developing country exports will be limited to a few, not critical, sectors. In general, both with industrial and agricultural products, the problems of the erosion of developing countries' preferences are micro rather than macro problems. In the medium term, it is crucial that further access to the EU markets for the CEC be

achieved through multilateral liberalisation rather than additional preferential arrangements.

272. The **FSU republics** are likely to be offered improved access to the EU market gradually. Again, the developing countries will find their tariff preferences eroded. Possibly the FSU will enjoy tariff-free access for some goods unconstrained by the QRs which affect developing country exports to the EU. The main threats are in chemicals and wooden goods. It is unlikely that tariff-free entry will be unrestricted in the more sensitive products, namely basic chemicals, veneers, plywood, toys, etc., which are the products of most interest to the developing country exporters. Nevertheless, as with the Europe Agreements, there will be a significant increase in competition in a few products of serious concern to a few developing countries.

273. The European Union may be the most worrying market for competition between East and West, but there are other playing fields. Obviously non-EU European countries will present the CEECT with challenges similar to those of the EU. The EFTA agreements with the CEC are modelled on the Europe Agreements - though they are more generous - while similar agreements are likely to be signed by the EFTA countries with the Russian Federation and other FSU republics.

274. On other OECD markets, one worry to the developing countries comes from the erosion of their tariff preferences through the extension of the GSP schemes to the CEECT. This comes on top of the gradual erosion of preferences through successive GATT trade rounds. In accordance with the results of the Uruguay Round GSP preference margins will be reduced once again. In fact many of the OECD GSP schemes have covered much of the CEECT for some years. The major changes in coverage of preferences will be in the extension of the United States GSP to the FSU beyond the Russian Federation. This will give the FSU tariff-free access to the United States market. As regards competition with the developing countries, the sectors at issue are the same as in FSU trade with the EU countries - chemicals and wooden goods.

275. The DMEs could go some way to counter the concerns of the developing countries by increasing preference margins (for all beneficiaries, including the CEECT) for those products where GSP treatment does not mean zero tariffs, by extending product coverage, by eliminating or expanding tariff quotas and by easing the rules of origin. "Cumulation", whereby processing done in other beneficiary countries is treated as equivalent to processing in the "originating" country, which is provided for under various schemes (including the EU GSP in respect of the Andean Pact countries and the ASEAN countries), should become standard procedure across all beneficiaries, at least for non-sensitive products.

276. "Graduation" or "competitive need", through which donor countries exclude the higher-income or most product-competitive developing countries from their GSPs, should be governed by multilaterally agreed rules based on clear criteria. Similarly it would be helpful to all GSP-beneficiary countries to have an internationally agreed set of rules of origin.

277. However, relatively small changes in tariff preferences or quotas are clearly not the most important factors determining the strength of the CEECT

attack on Western markets and the threat to current developing country exports. Much more important will be the imagination and initiative with which the new entrepreneurs in the East take stock of market opportunities and attack them with efficiency and imagination. The United States takes under 3 per cent of FSU exports - the DMEs as a whole outside Europe only take six per cent - so there is scope for a radical increase in the FSU market share. Likewise, the impact on the developing countries will largely depend on the imagination, flexibility and positive response with which the DC producers withstand the CEECT attacks on their markets.

278. Of course there will also be an increase in competition on the developing country markets themselves. In the past there have been problems with the acceptability of certain manufactures on Western markets because of quality failings, lack of spare parts or inflexibility in specifications. But poor quality was largely the result of the lack of incentives under the central planning system. That problem is now being addressed by privatisation and managerial incentive schemes, most notably in the Visegrad countries. The process has begun, so far in a small way, in the FSU republics. To the extent that low quality is a problem of technological backwardness, increased FDI from the West and the more open transfer of technology should make an impact. However where certain products remain below par as regards the DMEs, CEECT producers will have an incentive to sell them on developing country markets.

(d) Transfer of technology

279. **Transfer of technology**: the CEECT has had a long history of involvement in agriculture, natural resource development and manufacturing in the third world, albeit in a restricted number of politically acceptable countries. This has been realised through a variety of instruments including BOT (build, operate, transfer), turnkey plant construction, joint ventures of various sorts and technical assistance and training. There have also been straightforward exports of technology-intensive products, which continue today.

280. Bulgaria has been the most active of the CEECT in reaching formal agreements on science and technology, followed by Hungary, the former USSR, the former CSFR and Romania. However such agreements only reflect one channel for technology transfer and may be misleading [Maciejewicz 1989]. FDI projects are another and perhaps more potent channel.

281. Other forms of technology transfer from East to South have been through the export of licenses - about seven per cent of the world supply of licenses originated in the CMEA countries in the early 1980s [Maciejewicz 1989, 21]. More important, in the decade of the 1980s a new form of technology transfer developed through tripartite industrial cooperation agreements with a partner from each grouping, i.e. the DMEs, the DCs and the CMEA countries. Typically the DMEs provided the minor partner. These agreements have been concentrated in energy and intermediate goods industries, with the Middle East and the Mahgreb countries accounting for the bulk of the developing countries involved. This is a vehicle through which western aid could be directed to the mutual benefit of East and South.

282. This experience raises the issue of the extent to which technology transfer between East and South can expand over the future. Financial constraints will mean that for some time the ability of the CEECT Governments to engage in development assistance will be hamstrung, though there is more scope for the CEC to continue in that field in a modest way than there is for the FSU republics. But technical assistance and training could in principle be transformed from development assistance into exports of consultancy and training services and make a sound contribution to the trade balances of some of the CEECT. While the developing countries would have to purchase these services, they may find that previous work with CEECT technicians, trainers and advisers, common language skills and written materials, the existing stock of capital goods from the CEECT and the mutual understanding of the potential benefits from working together may make that more attractive than importing those services from the West.

283. However, even where there may be problems of competitiveness for CEECT technology products, expert consultants and teachers from the CEECT are generally cheaper than their DME equivalents, though both may divert employment from technicians from other third world countries.

284. There is also the somewhat debatable issue of appropriate technology. To the extent that the technology of the CEECT is clearly more appropriate to the needs of the developing countries than that of the DME, CEECT producers will find that they can sell their equipment in DC markets and CEECT technicians will be welcome as consultants and trainers as long as their products are competitive. However, just because the technology used in the CEECT is often more appropriate to the developing countries than that used in the DMEs, it by no means follows that the CEECT can produce their goods competitively in relation to the more advanced DME products. Furthermore both DME and NIC producers often produce "intermediate technology" products specifically for the third world markets.

285. However, as Maciejewicz argues, "it is very rare for technology itself to be introduced into production without supporting investment, so the initial import of know-how usually leads to the import of capital goods" [1989, 6]. This suggests that price competition in the capital goods alone may not be the constraining factor. It is the competitiveness of the whole package that counts. The CEECT can use their relative technological sophistication to generate exports of technology products to the developing countries by first selling, or where budgets permit supplying as aid, consultancy or training services.

286. Exports of capital goods to the third world, however they are generated, do badly require efficient and well-funded export credit facilities, at present a major problem in the CEC and largely non-existent in the FSU. This is perhaps the greatest single problem for the development of technology exports to the South.

287. Most technology transfer has been the by-product of trade in capital goods, and, to a large extent, future prospects for transfer depend on those for trade. Development assistance by the CEECT to the developing countries on a large scale - or even on the scale of the decade of the 1980s - can be ruled out for the foreseeable future. But the CEECT can be encouraged to provide aid in the

form of technical and training missions to the developing countries on the grounds that this is likely to boost exports of technology goods.

288. The other side of the coin is the transfer of technology from South to East. The CEECT have a lot to learn from the NICs in particular, not so much about the scientific aspects of technology but about the application of the technology in the manufacturing process. If, as we must expect, there is a rapid build-up, albeit from a tiny base, of NIC investments in the CEECT economies, this process will become more important, particularly in such sectors as communications, consumer electronics, robotics and the relatively new area of computer-controlled garment-making machinery.

2. Investment flows

(a) FDI flows into the CEECT compared with those in the developing countries

289. Table 12 showes how small **FDI flows into the CEECT have been compared with those into the developing countries**, at least until 1991. From a macro-economic viewpoint, they were inconsequential up until 1989, although a number of CEECT, the USSR included, had decided some years earlier that FDI was essential to bring in hard currency, technology and technical and managerial know-how. Even then, FDI flows into the CEECT only became substantial in 1991 and 1992, although in those years they were somewhat less than the inflows into Cyprus, Malta, Portugal and Turkey.

290. However, I have argued that foreign investment in the CEECT should continue to grow as the economic and political environment stabilises, the infra-structure improves and the regulatory framework is clarified and made predictable. Investment in the Visegrad countries, which are already the recipients of the vast bulk of total CEECT inward investment, will continue to expand, followed by the other CEC and the Baltic States. Finally, the FSU republics will benefit, provided that they establish the necessary stable and clearly and fairly regulated environment.

291. Table 12 shows that in Latin America FDI follows reform. When the vigour of reform weakens - as in Brazil after 1988 - FDI inflows dry up. Capital flight takes place. Adjustment must be sustainable and must have political support - as in Hungary and the former CSFR and Poland after mid-1992 [EBRD 1993].

292. Competition for FDI depends on the provision of the appropriate environment. Transnational corporations must assess the pros and cons - closeness to the target markets, unit labour costs, the state of the infrastructure, political and economic stability, and inducements. The choice is not between East and South or even the four points of the compass. It is between alternative locations, each with its rate-of-return calculation, however inaccurate. In particular. the opening of the CEECT has meant an increase in the market size of some 400 million people - "globalisation" has become a valid term - and a vast extension of the possible locations for production. There is no lump of FDI to be distributed around the world. New opportunities will generate new flows, as they have in the past.

293. Nor is the choice of host country determined by the market that a particular investment is intended to serve - unless it is a non-transportable service like retail banking or construction, though even in the latter case capital, labour and management are transportable. Only the physical product is fixed. There are no regional "back yards" or "chasses gardées" in the international investment business. Nevertheless, there are geographical patterns of FDI. To a large extent FDI follows regional trading patterns and arrangements. The next section will consider the question of regional blocs.

294. The issue of investment incentives has become quite controversial. There is a danger that countries bid against each other for FDI with tax holidays and fiscal privileges of various sorts, with investment grants, with grants for infrastructural costs, with golf courses and health clubs for managers, and so on. Clearly such competition distorts the allocation of FDI, as well as damaging the national budgets of the countries involved. There is scope here for the further development of the World Bank guidelines on the treatment of FDI, to which DME and developing country Governments should adhere, as well as those of the CEECT.

(b) Emerging cooperation between the CEECT and the developing countries

295. **Investments by the former socialist countries in the third world** prior to 1990 were small in global terms. Over the period 1980 to 1990, FDI from the Soviet bloc countries to both developed and developing countries totalled $US 334 million, of which $US 110 million came from the USSR, $US 70 million from Hungary and $US 62 million from Bulgaria [ECE 1992]. Most of this took the form of the establishment of subsidiaries for the export and servicing of CEECT manufactures in the DMEs. According to the same source, which is based on statistics provided by the CEECT themselves, at end-1990 only 29 per cent of Bulgarian foreign investment was in the developing countries, 24 per cent of Hungarian projects and 26 per cent of USSR projects. Romania had 64 per cent of its projects in the developing countries, mostly in Africa, but was very much the exception. Most CEECT investment in the developing countries was in the Middle East.

296. It seems likely that the official FDI data reported to the ECE significantly under-represent the full extent of involvement in the third world. A large number of projects of the BOT (build, operate, transfer) type, where ownership transfers to the host country, have probably been excluded. In any event it seems that foreign investment was concentrated in those same developing countries with which they had close trade links. Indeed FDI was often part of the same agreements. Iraq received help in developing oil resources, and Morocco for the exploitation of phosphate deposits. The USSR built plants and mines for bauxite in Guinea, Indonesia and India, and for alumina in Turkey and Jamaica. The general purpose was to secure guaranteed supplies. There was concern that these might be pre-empted by Western FDI and Western transnational companies.

3. Regionalisation

297. There is a trend towards the assimilation of the CEC within the EU trading bloc, which could be defined to include the EFTA countries and the ACP States,

as well as the member States of the Community themselves. Certainly there is every likelihood that, following the Europe Agreements, the CEC and the Baltic States will be within a free trade area with the EU, if they are not by then full members. Whether the other FSU republics, or a subset of them join the free trade area remains an open question. It does not seem a likely development for the near future but certainly cannot be ruled out for the medium term. However, here I will concentrate on the more immediate effects of a trade bloc incorporating the present EU, EFTA and the CEC, though the inclusion of some FSU republics would only strengthen the concerns that emerge.

298. Much has been written about the dangers of the world trading system fragmenting into regional groupings with relatively free trade within them and considerable protection between them. I will not enter that debate here, but the closer integration of the CEC with the EU does have implications for the developing countries which cannot be ignored.

299. Both positive and negative ramifications are likely. On the positive side, the elimination of all barriers to trade between the CEC and the EU would mean faster growth for both groups, particularly the CEC, as markets expand, economies of scale and intra-industry trade opportunities are exploited and the locus of production rationalised. All the arguments in favour of the European Single Market are applicable *a fortiori*. The removal of these barriers has been urged throughout this report. Faster growth in Europe means more vigorous market opportunities for all countries, including the developing countries.

300. On the negative side, there are a number of worrying risks:

The relatively open CEC (and possibly in due course FSU) markets will disappear behind EU trade frontiers. In terms of tariff protection, there may not now be a great difference between average rates, and that difference should diminish as a result of the Uruguay Round Agreements. However the EU market is considerably more protected by non-tariff barriers than are the CEC markets, which, unless those barriers were reduced, would imply a net loss in developing country access;

The unconstrained (by QRs) nature of the CEC GSP schemes would be lost to the EC GSP, with its many thousands of ceilings and tariff-quotas and its impenetrable rules of origin. We do not have data on the utilisation of the CEC (or Russian) schemes, but the experience with the EU scheme is unimpressive at best (see annex A);

I argued earlier that FDI is not a zero-sum game and that a CEC gain does not mean a developing country loss. However, to the extent that the CEC have unfettered access to the EU market and the access of the developing countries is constrained, there will ultimately be a significant advantage in investing in the CEC if the EU market is the ultimate target;

Starting from the enviable situation in which historical baggage can be discarded, the CEC are free to devise new relationships with the third world, which may produce mutually beneficial development gains. If the CEC were members of the EU, how much this could survive the increasingly centralised and Commission-driven third world development policy of the EU is doubtful;

Finally there is some danger that, having absorbed the CEC into their market, with all that implies, or is perceived to imply, in terms of disruption to fragile industries like textiles, steel and chemicals, together with the cost to the CAP or EU farmers of CEC agriculture, the EU will turn its back on improving the access of the developing countries. At worst it could make the third world pay, through trade restrictions, the adjustment costs of increased imports from the CEC and, indeed, the FSU republics. In a sense the clause in the Europe Agreements pertaining to the MFA points the way. Quotas for the CEC will be expanded at twice the rate as those applied to other textile exporters. It seems unlikely that the EU will not listen to its own powerful industrial lobby and not slow down the expansion of the third world quotas to compensate for the faster expansion of the CEC quotas.

301. In general, there is a trend towards regional trade and investment patterns, even if blocs is too strong a word. Transnational companies tend increasingly to focus on one area of the world - the Americas, Europe (from the Atlantic to the Urals, plus North Africa) or Japan and the Asian Pacific. "Globalisation" generally means production in and for one of these regions. A TNC supplying more than one region will generally have at least one production location in each of its regional markets. Where investment takes place depends on many factors, not least transport and labour costs, cultural links and the conditions of access to the regional market as a whole. Prospects of a pan-American FTA have encouraged United States firms to invest in Latin America, particularly in Mexico in the context of NAFTA. There is talk of several FTAs in the Asia-Pacific region, but to-date most investment has been undertaken by Japanese firms. Similarly, European firms have been most interested in investing in the CEECT.

302. The CEECT, and particularly the CEC, have become part of the European sphere. To the extent that FDI will be diverted to the CEECT, it will be diverted from other countries which are part of the same sphere. Thus, to the extent that such diversion takes place, the losers are more likely to include Spain and Portugal, as well as the Mediterranean, in particular Turkey and North Africa, than the developing countries of Asia or Latin America.

B. Policy measures

1. Western trade policies

Continued improvement of access to Western, particularly EU, markets is a precondition for the successful transition of the CEECT economies, including, notably, eventual CEC membership of the European Union. It is important that, if trade is not to be diverted away from the developing countries, this improved access be effected by multilateral trade liberalisation rather than increased preferential access for the CEECT.

2. Regional initiatives

Free trade areas and other regional trade agreements which involve both some CEECT and countries outside, both industrial and developing, can be important bridges in the integration of the East into the world trading system. Those already agreed include several Nordic-Baltic FTAs and the Europe Agreements. The Black Sea Economic Cooperation agreement was signed in 1992, as was the agreement of the Organisation for Economic Cooperation, signed by eight Islamic nations. Further developments along these lines, possibly in the Far East with Mongolia, the Russian Federation, the Republic of Korea and Japan, should be pursued and given every encouragement by international organisations, including UNCTAD and GATT. Any free trade or customs agreements should be consistent with the relevant GATT articles.

3. CEECT trade policy and GSP schemes

The importance of keeping CEECT external barriers down cannot be exaggerated. This allows the benefits of international competition and the discipline of the world price structure to prevail. If the policy is pursued throughout the region, it will encourage foreign investment designed to supply the regional market. It will enable the CEECT to forge close links with the developing countries in trade and joint ventures, and help rebuild old links which have been damaged by the transition process.

With restricted preference margins, the CEC and Russian GSP schemes can only offer a limited advantage to the developing countries, which qualify for tariff-free treatment. Nevertheless, these GSP schemes are important gestures of solidarity with the third world and should be encouraged. Their cost in terms of lost tariff revenue is minimal. They are also an object lesson for the DMEs in their comprehensiveness in terms of product coverage and their lack of ceilings or other quantitative constraints. Romania and the FSU republics other than the Russian Federation and Belarus should be encouraged to develop similar schemes. There does not appear to be

any serious reason to object to the Polish rule that eligible developing countries are those with a lower per capita GDP than that of the donor country.

Existing and future CEECT schemes should extend GSP coverage to imports from other CEECT countries as a contribution to rebuilding trade links between the FSU republics and the former CMEA member States.

4. Promotion of cooperation at the enterprise level

The restoration of earlier forms of joint venture between private enterprises in the CEECT and private or public enterprises in developing countries should be encouraged. CEECT Governments should support such joint ventures with developing country enterprises through technical assistance in consultancy, training and similar initiatives. To this end, all CEECT should establish formal technical cooperation programmes for the third world, emphasising the mutual benefits to development. In determining which developing countries these programmes should focus on, the CEECT will be rightly influenced by historical ties. However it would be desirable for the CEECT to consult among themselves to avoid duplication.

The importance of trade fairs, the mutual establishment of chambers of commerce, and other institutions for linking private sector enterprises in the developing countries with those in the CEECT should not be overlooked, and the CEECT and developing country governments should consider the practicality of selective subsidies to help the participation of the private sector from both sides.

Technical assistance in many of the areas highlighted in section II B.3 as being needed by the CEECT, especially concerning trade finance and export credit insurance, trade intelligence and trade promotion activities, is equally required by the developing countries. To the extent this were provided by DME aid programmes, it could in some measure be geared to promoting links between CEECT and developing country enterprises.

5. Other measures to help developing countries enter new markets

Developing countries with previously strong trade links with CEECT countries should consider how to rebuild those links under the new conditions.

CEECT Governments should frame trade and investment agreements with developing countries specifically to encourage joint ventures. Countertrade, and other forms of trade and FDI which economise on hard currency, should not be ruled out where payments difficulties arise.

A financial facility should be established to promote, through loans at concessional interest rates, investment by the CEECT in the developing countries and vice versa. In this there is a clear role for the EBRD, possibly in conjunction with the World Bank.

The EEC programmes, PHARE for the CEC and Baltic States and TACIS for the CIS states, could be modified to include a specific facility for technical assistance in the establishment of trade and investment links between the East and the South. The technical assistance could take the form of engineering assessment, broader project appraisal and assistance with alternative countertrade and other financing mechanisms.

Suggestions were made earlier to improve the GSP schemes of the industrial countries by expanding coverage, raising preferences, eliminating or increasing tariff-quotas and easing rules of origin. At least for non-sensitive goods, cumulation should be allowed between all the CEECT. In addition, the EU could allow cumulation between all the CEECT, including those with the Europe Agreements, and the ACP countries or the GSP beneficiaries, with the country of final processing eligible for whatever preferential treatment which that country's status (as CEC, FSU, ACP, least developed country or simply DC) merited.

6. Intergovernmental instruments

To prevent competitive bidding between countries for inward FDI through more and more fiscal and other incentives, strict adherence to the World Bank FDI guidelines is necessary. If required, these should be further developed to prevent, or at least restrict, the competitive bidding-up of investment incentives, such as tax holidays and management inducements. Such inducements lead to serious revenue losses and additional expenditures by the bidders, while distorting the inter-country, and probably the intra-country, allocation of investment.

DME public procurement restrictions on development assistance should be broadened to allow tendering by CEECT enterprises for work in developing countries and *vice versa*.

The DME Governments, possibly through the aegis of the EBRD, should examine the modalities of financing, or contributing significantly to the finance of, export credit guarantee agencies for the CEECT, initially the CEC. This would enable CEECT enterprises to pursue capital goods exports to the developing countries, possibly in connection with the technical assistance programmes mentioned above. This would help to establish new trading links, including joint ventures and various reciprocal trading arrangements, between the CEECT and the developing countries.

Annex A

GSP: THE DME AND CEECT SCHEMES

The DME schemes

1. Data on the major DME schemes affecting the CEECT are given in appendix table 23. Some further details on the EU scheme are to be found in appendix table 24. A number of points can be made.

2. Firstly, it is clear from appendix table 23 that the CEECT were major beneficiaries from the EU scheme before entering into force of the Europe Agreements, but are very minor beneficiaries in the case of the United Sates and the Japanese schemes. The major reason is simply the much greater share of EU imports coming from the CEC. In the years covered by the data, the EU GSP applied to the five CEC countries. The picture will be very different from 1992 onwards, since the CEC are excluded from the EU GSP by dint of the Europe Agreements, while the FSU republics are given "temporary and exceptional", i.e. limited, eligibility (see section II. A. 6(b) above). Estimates of how the FSU would have benefited from each scheme are given in appendix table 23.

3. Secondly "take-up" rates, measured as the ratio of the value of goods receiving GSP treatment to the value of imports covered by the scheme, are significantly higher in the United States and Japanese schemes for imports from the CEECT than for imports from the developing countries. The main explanation is probably that tariff quotas are less constraining in the case of CEECT exports, though questions of ignorance or inertia about the schemes among the developing country exporters may play a role.

4. Thirdly, it is apparent from appendix table 24 that take-up rates are very low for MFA products - simply because the TQs are rapidly filled - but they are not significantly different for "sensitive" products than for others. "Sensitive" products here exclude agricultural goods, textiles and iron and steel (for which separate data are available). The most important CEC exports included in the "sensitive" category are chemicals.

5. Bulgaria was the only CEECT country with eligibility for any EFTA GSP scheme in 1991. Rates of take-up varied from 31.6 per cent in the Finnish scheme to 81 per cent in the case of the Swedish scheme. Only a total of $US 10.5 million worth of Bulgarian exports to the EFTA countries benefited, of which $US 6.4 were imports by Sweden.

6. Poland and Hungary have both featured as leading beneficiaries of the EC GSP scheme (see table 20). The major beneficiaries tend to be countries with rapidly expanding exports, though the extent to which the GSP has contributed is arguable (see, for example, Laird and Sapir [1987] and Davenport [1986] for analytical studies of the effects of GSP). One of the reasons why these countries have benefited particularly from the GSP is their above-average utilisation for non-sensitive products. The EU Commission argues that "[t]his seems to suggest that these countries have been more successful in developing the necessary

infrastructure to take advantage of the benefits granted under GSP" [ECE 1993, 72]. Whether this is true or not, the EU does not make it easy for countries to plan and invest to take advantage of the GSP, with its refusal to guarantee the longevity of the scheme for more than four years at a time and given the way it reserves the right to vary the rules of the game at any time. Take, for example, its use of quotas to cap any "surges" of imports. Nor is it likely to be the case with Poland or Hungary which have not had time to plan their use of EU preferences.

Table 20

EU GSP utilisation in 1990, per cent of imports from all beneficiaries

	Share in dutiable imports	Share in GSP benefits	Share in GSP benefits, sensitive products	Share in GSP benefits, non-sensitive products
China	13.5	17.7	15.2	20.1
India	4.9	9.4	13.7	5.4
Brazil	7.5	8.7	7.6	9.6
Thailand	5.4	6.7	7.3	6.2
Poland	5.9	6.4	3.0	9.6
Indonesia	3.3	5.2	6.5	4.0
Singapore	6.2	4..5	3.7	5.2
Malaysia	3.6	4.3	3.6	5.0
Hungary	3.8	4.2	2.5	5.8
Total top 10	62.0	70.7	64.1	76.7

Source: Commission of the European Communities, 1993.

The CEECT schemes

7. Among the CEECT, Poland, Hungary, the Czech Republic, Bulgaria, Belarus and the Russian Federation have GSP schemes. Data on the values of imports from the developing countries which have benefitted from these schemes are not available. The main characteristics of the schemes are explained below.

8. The Polish scheme has established a general margin of preference of 30 per cent, i.e. tariff rates on eligible imports will be 30 per cent lower than the base MFN rates. Zero tariffs are applied to tropical products and to the exports of the least developed countries. A list of products excluded from GSP treatment

includes "sensitive" agricultural products, textiles, alcoholic beverages tobacco products and luxury goods (i.e. gold and gold products, precious stones jewellery and cosmetics). Eligible developing countries are those outside Europe where per capita GDP does not exceed that of Poland. Other developing countries which give Polish exports MFN treatment will receive MFN treatment from Poland even where they are not members of GATT.

9. The GSP of the former CSFR applied to 124 developing countries. The Czech Republic has adapted the same rules for its scheme. In general, tariffs on eligible imports are levied at 25 per cent of MFN rates, except for imports from the least developed countries, which are admitted tariff-free. Most tropical products - very broadly interpreted - enter tariff-free. Sugar and tobacco are not eligible for GSP treatment.

10. Hungary has a three-column tariff schedule defining GSP rates for each heading. It has recently reduced to zero tariffs on 41 tropical products and reduced the preferential rates on a further 44. Exports from the least developed countries in any event receive tariff-free access to the Hungarian market.

11. The Bulgarian scheme applies a 50 per cent tariff reduction to beneficiaries, with full exemption in the case of LDCs. Very few products are excluded from the scheme.

12. The Russian Federation scheme provides for GSP tariffs of 50 per cent the equivalent MFN tariffs for eligible developing countries and zero tariffs for exports from the least developed. Only a provisional list of eligible developing countries has so far been adopted.

Annex B

CEECT TRADE POLICIES

1. This annex considers the trade policies of the various CEECT. Again, particular attention is paid to the experiences of Poland and Hungary.

2. In **Poland**, as part of a "big bang", on 1 January 1990, tariffs, while remaining formally in effect, were suspended on a large number of goods. This was repeated in March and in August, by which time tariffs had been suspended on 60 per cent of all items. The purpose was broadly to establish international price relatives for the reasons set out earlier, though the disruptions to the economy and the substantial fall in output meant that low tariffs were also seen as an immediate way of relieving the shortages of consumer goods, industrial raw materials and intermediate goods.

3. In August 1991, there was a sharp increase in tariff protection. This coincided with the shift to the new Harmonised System from the earlier CMEA nomenclature. Most suspensions were allowed to lapse so that the actual tariff rates, which were not bound under the GATT, were raised significantly in a number of sectors, though the dispersion of rates was reduced. The frequency-weighted average rate was increased from 5.5 per cent to 18.4 per cent, similar to the average of 1989. Furthermore, the rates were applied to c.i.f. rather than f.o.b. values.

4. The lapse in suspensions was partly motivated by the need to establish a higher base for percentage cuts in tariffs agreed with the EU. But this change of direction was also in part a response to serious budgetary problems and demands for protection by foreign investors or particular domestic sectors. Moreover, the Polish Government has argued that "one of the policy assumptions at the starting point of the reform in 1990 was that the deficiencies of the system can best be identified only when the economy is exposed to the full and unrestrained impact of competition on a scale which even much more stable, efficient and affluent economies could hardly afford. Once such "soft spots" have been identified, the trade policy could follow a more balanced course, better adjusted to the realities of the international trading environment" [GATT, 1993, 5].

5. At present, non-tariff barriers play a relatively small role. There are import quotas on liquid fuels, alcoholic beverages and tobacco. There are zero tariff quotas on certain cereals. More controversially and of questionable consistency with GATT rules, there are tariff quotas for EU car firms investing in Poland. There are plans to introduce variable levies on certain agricultural products, though the product coverage will be much more limited than, say, that of the CAP.

6. Finally, there is a non-discriminatory import surcharge under Article XII of the GATT "to forestall the imminent threat of a substantial deterioration in the balance of payments caused by the unusually severe drought and worsening of the trade balance... The surcharge will be 6 per cent until the end of 1993 and

3 per cent in 1994. It will be discontinued from the beginning of 1995" [GATT, 1993a, 18].

7. An additional factor in Poland's trade policy has been the Association (or "Europe") Agreement signed in December 1991 with the European Union. The preferential trade elements of that agreement came into force in March of 1992. The treaty establishes a timetable for the progressive reduction in trade barriers between Poland and the EU. Poland has already eliminated tariffs on about 27 per cent of EU exports - which constituted some 50 per cent of total Polish merchandise imports in 1991 - and the rest will be eliminated progressively from 1995 onwards. The value to Poland of the Agreement has been widely criticised for the ungenerous treatment of so-called "sensitive" products by the EU. Poland, however, is permitted to implement derogations for sectors undergoing restructuring or facing difficulties. Thus, the Agreement is less of a constraint on Poland's trade policy than might have been expected. However, as in Hungary's case, the importance of trade with the EU may mean that the structure of barriers against imports from other countries may come to compensate the relative openness vis-à-vis imports from the EU.

8. In **Hungary**, as early as 1987 all enterprises were granted the right to engage in convertible-currency trade, with the exception of certain products amounting to about 30 and 40 per cent of convertible currency exports and imports respectively. In 1989, import licensing was abolished on some 40 per cent of convertible currency imports, but such imports were, and continue to be, subject to prefinancing requirements. In 1990 the share of license-free imports was raised again and in 1991 was made automatic except for a list of goods representing less than 10 per cent of imports.

9. Tariffs were rebased on the Harmonised System in January 1991 and reduced on some 600 lines in early 1991. About 93 per cent of the lines covering industrial products and 23 per cent covering agricultural products are now "bound" under the GATT. The tariff schedules affecting imports into the state and private sectors have been unified. The average tariff schedule will have fallen from 16 per cent at the beginning of 1991 to eight per cent by the end of 1992. Further reductions are envisaged within the context of the Uruguay Round agreement. Imports are also subject to a two per cent customs clearance fee, a 3 per cent statistical fee and, where a license is required, a one per cent licensing fee.

10. Despite the general trend towards lower tariffs, there has been some backtracking on import liberalisation in specific sectors. For example, import quotas have been introduced on 15 steel products. Other sectors where new restrictions have been imposed include cars (through a 44 per cent reduction in import licenses in the first half of 1992), cement and televisions. In some cases there has been a clear link between major foreign investment programmes and increased tariff protection. For example, in order to protect local producers of television sets, including the new Samsung investment, the tariff was raised by 25 per cent for two years.

11. Despite the moves towards liberalisation there are still long lists of products requiring export licenses (largely iron and steel and non-ferrous

metals, vehicles, chemicals, wood and agricultural goods) and import licenses (electrical goods, chemicals, footwear, textiles and clothing and agricultural goods), though most of these are probably only barriers from the bureaucratic viewpoint. A global value quota is applied to a wide range of consumer products, though recently it has not been constraining.

12. Hungary's agreement with the European Union parallels that of Poland, though insofar as EU barriers to Hungary's exports are concerned, the timetable for non-sensitive products is extended to seven years.

13. The **Czech Republic** applies an eight-digit tariff nomenclature based on the Harmonised System. Conventional rates (applying to GATT members, countries with which an MFN clause has been agreed and certain developing countries) are generally low, with a (simple) average of 5.7 per cent, though with a few peaks (e.g. 70 per cent for a few clothing items). Some 97 per cent of all tariffs and 100 per cent of agricultural tariffs are bound. However, a surcharge of 10 per cent is levied on certain consumer products and foodstuffs, while variable levies are charged on certain agricultural products, in particular wheat, oilseeds and starches. Global quotas are set for a number of agricultural products.

14. From the abandonment of central planning in early 1990, **Romania** set out to establish the framework for integration into the world trading system through the liberalisation of imports, export promotion and market-based decision-making among domestic enterprises. A new Harmonised System tariff structure (with 4-columns: the statutory rate, the applied rate and two GSP rates) was introduced, together with GATT-consistent anti-dumping and countervailing rules and government procurement regulations [GATT, 1993b, Vol. II, 3]. Romania enthusiastically participated in the Uruguay Round negotiations. By mid-1992 the participation of the private sector in trade had reached about 30 per cent.

15. There are almost no quantitative controls on imports, but many more on exports. Temporary import surcharges are applied to beverages, perfumes, telecommunications equipment and vehicles.

16. In the GATT Council Meeting of 17-18 December 1992 at which the Trade Policy Review of Romania was discussed, participants drew attention, *inter alia*, to "the frequent tariff changes [which] were affecting the stability and predictability of the tariff regime" and the unpredictability of the export regime [GATT, 1993b, Vol. II, 5]. The accusation of unpredictability in the tariff structure presumably stems from the use of temporary tariff quotas to implement duty reductions or exemptions. Tariff quotas with zero rates applied to 45 six-digit HS items in 1992.

17. More serious are the export prohibitions or quotas which are widespread on every sort of product. They are intended to ensure balance between supply and demand on the domestic market, ensure security of supply or preserve natural resources. The quotas are meant to apply to subsidised commodities or raw materials used as inputs to subsidised commodities. It is the intention to gradually increase the quotas [GATT, 1993b, Vol. I, 77]. Their prevalence today indicates the degree to which the Romanian price structure is still far removed from that of world prices.

18. Tariff rates in the **Russian Federation** (for countries with MFN status) vary from 5 per cent to 50 per cent (with the exception of 150 per cent for denatured alcohol). A number of commodities, certain foodstuffs, medical equipment, pharmaceutical and chemical products, and since April 1993, some textiles and leathers, raw tobacco, tin, lead, natural rubber, ships and rolling stock, enter tariff-free. Also in 1993 tariffs on a wide range of capital goods and semi-manufactures were lowered to 5 per cent, while those on certain luxuries were raised to 30 to 50 percent. Imports from the CIS States enter tariff-free. Those from Georgia and the Baltic States pay rates twice as high as the MFN rates.

19. Imports are generally free of quota restrictions, though licenses are required for certain goods, including pesticides, insecticides, industrial waste and arms. However, the second half of 1992 saw some retreat from liberalisation [ECE, 1993].

20. Exports, however, are broadly controlled through quotas and licenses. Nevertheless in 1993, 24 out of 159 commodity headings and 24 out of 40 separate subheadings were freed. The Government intends to limit the list of goods subject to export controls to energy products and goods subject to quantitative restrictions in foreign markets, such as textiles and clothing. Recently, certain export quotas have been allocated through auction. Elsewhere, there are secondary markets in export certificates which quota-holders alone can obtain from the Government. Export taxes apply to about 100 product groups but there are numerous exemptions for particular regions or plants.

21. **Ukraine** has had observer status at GATT since June 1992 and has applied for full membership. MFN rates vary from 2 to 30 per cent, with the lowest rates applying to raw materials, non-ferrous metals and metal products, textiles and toys. There are no formal QRs, but such goods as nuclear materials, arms and industrial waste require authorizations.

22. A broadly-ranging list of goods subject to export control includes 32 commodity groups and 75 commodity subheadings. The list in fact covers most of the Ukraine's major export products. Some exports are subject to quotas, which are sometimes auctioned, and licensing. In some cases the controls only apply to exports to the EU.

23. Rates of duty on exports vary up to 30 per cent. The highest are applied to certain agricultural and food products, cement, petroleum, some chemicals and fertilisers, iron and steel and their products. The general goal is to favour industrial rather than raw-material-based exports. These include electronic and engineering products [Kisterski p. 26, 1992].

24. The general principle of liberal import regimes and quota-licensing regimes for exports deemed strategically important or in short supply domestically is the norm throughout **the remaining CIS republics**.

25. Among the **Baltic States** there is considerable diversity in trade policy, though they tend to have the most liberal import regimes of all the CEECT. In Lithuania, no import licenses (except for the usual health, environmental or security reasons) and few export licenses are required. From the beginning of

1993, imports have been subject to a partial tariff schedule and an excise tax system which is due to be eliminated. In Estonia, on the contrary, shortages of goods on the domestic market have resulted in a complex of export quotas and licenses (and in the case of rape seed oil and metals, tariffs). Imports are completely liberalised and tariffs only applicable to furs, cars, bicycles and yachts. Tobacco and alcoholic beverages are subject to excise taxes.

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Table 1

CEECT: volume of foreign trade, 1989-1992 (annual percentage change)

	Exports				Imports			
	1989	1990	1991	1992[a]	1989	1990	1991	1992[a]
Bulgaria	-2.3	-23.4	-30.1	4.0	-4.6	-23.3	-17.0	13.0
Former CSFR	-2.0	-4.2	-4.9	4.2	2.7	9.7	-38.6	19.3
Hungary	0.3	-4.3	-4.9	2.0	1.1	-3.4	5.5	-8.0
Poland	0.2	13.7	-2.4	11.6	1.5	-17.9	37.8	1.8
Romania	-10.8	-46.0	-7.0	18.4	3.7	4.0	-17.0	10.2
Yugoslavia (SFR)[b]	4.8	2.2	-	..	13.1	21.9	-	..
Croatia	..	..	..	-5.0	..	..	..	-10.2
Slovenia	..	..	..	8.0	..	..	..	-5.0
Yugoslavia (FR)	..	..	..	-46.0	..	..	..	-30.4
CEC[c]	8.0	-10.8	8.8	..	0.1	-5.6	-12.0	..
Soviet Union[d]	-	-13.1	1.0	..	9.3	-1.4	-7.9	..
Russia[e]	..	..	..	-	..	..	..	-26.0
Russia[f]	..	..	..	-	..	..	..	-6.0

Notes
a: Change in dollar value for Bulgaria, Romania, Croatia, Slovenia, Yugoslavia (FR). Polish figures refer to convertible currency trade.
b: Croatia, Slovenia and Yugoslavia (FR) only.
c: Excluding Yugoslavia.
d: Former Soviet Union for 1989-1991; CIS States for 1992.
e: Russian Federation Goskomstat data.
f: Russian Federation Ministry of Foreign Economic Relations data.

Source: ECE 1993a.

Table 2

Poland: trade by area, 1985, 1988, 1991, $US million and per cent

	Imports			Exports		
	1985	1988	1991	1985	1988	1991
World ($US m.)	10 836	12 243	15 522	11 489	13 960	14 903
Percentages						
Developed	30.7	45.9	69.0	32.4	43.2	73.6
USA	1.2	2.0	2.3	2.0	2.6	2.5
Europe	27.8	40.8	64.5	29.5	57.8	69.6
EC	19.5	28.6	49.9	22.6	28.9	55.5
Germany	8.7	13.3	26.5	8.5	13.1	29.3
EFTA	8.3	12.2	14.6	6.9	9.8	14.1
Developing	11.8	12.8	11.8	14.6	13.4	8.7
America	2.6	2.7	0.7	2.1	1.5	1.3
Asia	4.5	6.2	9.5	7.0	6.5	4.1
Africa	0.9	0.5	0.3	2.2	2.7	2.1
N. Africa	0.8	0.4	0.1	2.1	2.5	1.6
Sub. Sah.	0.1	0.1	0.2	0.1	0.2	0.5
CEECT	47.9	40.5	19.0	40.7	40.8	16.8
CEC	18.1	17.2	4.9	16.1	16.2	5.8
Fm. USSR	29.8	23.3	14.1	24.6	24.5	11.0

N.B. Yugoslavia included in developing, Albania in CEC.

Source COMTRADE, UNSO.

Table 3

Hungary: trade by area, 1985, 1988, 1991, $US million and per cent

	Imports			Exports		
	1985	1988	1991	1985	1988	1991
World ($US m.)	8 152	9 346	11 371	8 555	9 931	10 187
Percentages						
Developed	37.4	43.3	66.4	30.2	39.6	66.6
USA	3.0	2.2	2.6	2.3	3.0	3.2
Europe	32.9	37.6	60.5	24.8	32.7	60.7
EC	21.8	25.4	41.3	16.0	24.7	45.8
Germany	11.4	13.9	21.5	7.9	11.0	26.9
EFTA	10.2	12.2	19.2	8.8	10.0	15.0
Developing	14.1	12.8	9.7	17.2	15.7	13.9
America	3.3	1.2	0.9	1.5	1.1	1.0
Asia	3.7	9.9	7.0	7.7	9.3	7.9
Africa	1.6	1.3	2.5	4.5	2.5	1.3
N. Africa	1.3	0.8	2.0	3.6	1.7	1.1
Sub. Sah.	0.3	0.5	0.5	0.9	0.8	0.2
CEECT	49.6	43.9	22.3	52.4	44.7	19.4
CEC	19.5	18.8	7.0	18.8	17.1	6.1
Fm. USSR	30.0	25.0	15.4	33.6	27.6	13.4

N.B. Yugoslavia included in developing, Albania in CEC.

Source: COMTRADE, UNSO.

Table 4

Romania: trade by area, 1985, 1988, 1991, $US million and per cent

	Imports		Exports	
	1988	1991	1988	1991
World ($US m.)	8 438	5 723	10 487	4 164
Percentages				
Developed	18.7	38.3	42.2	46.0
USA	2.0	3.2	5.4	3.0
Europe	14.3	31.5	33.7	39.3
EC	13.0	25.2	30.5	34.3
Germany	9.5	10.1	11.9	11.1
EFTA	1.3	5.9	3.2	5.0
Developing	34.5	36.5	23.9	24.1
America	2.1	2.7	2.8	0.9
Asia	27.8	22.2	15.3	15.2
Africa	2.7	8.2	3.6	3.5
N. Africa	2.4	7.9	2.9	2.3
Sub. Sah.	0.3	0.3	0.7	1.2
CEECT	45.9	24.7	32.7	28.2
CEC	14.7	7.2	10.7	6.6
Fm. USSR	31.2	17.1	22.0	21.6

N.B. Yugoslavia included in developing, not CEC.

Table 5

Soviet Union: trade by area, 1990 and 1991, $US million[a] and per cent				
	Imports		Exports	
	1990	1991	1990	1991
World ($US m.)	98 306	44 017	85 599	45 233
Percentages				
Developed	70.3	75.0	66.8	74.5
USA	4.4	8.3	1.3	1.6
Europe[b]	34.4	37.6	36.7	50.2
EC[c]	25.7	30.7	30.1	41.6
Germany	16.4	17.6	10.1	13.1
EFTA[d]	8.7	6.9	6.6	8.7
Developing	10.4	10.4	13.5	10.0
China	2.4	3.8	2.0	3.5
CEC	19.4	14.6	19.7	15.5

a: Converted at $1: 1.4 roubles in 1990, $1: 1.8 roubles in 1991.
b: Germany (former Federal Republic), Italy, France, Netherlands, Belgium, UK, Finland, Austria, Switzerland.
c: Germany (former Federal Republic), Italy, France, Netherlands, Belgium. UK.
d: Finland, Austria, Switzerland.

Source: Country data - Ekonomitcheskaia Gazeta.

Table 6

CEECT trade with developed market economies, 1985-1991, per cent and $ billion

	1985	1986	1987	1988	1989	1990	1991
Origin	Share in developed countries' imports (in per cent)						
Poland	0.28	0.26	0.26	0.27	0.27	0.34	0.37
CSFR	0.19	0.20	0.19	0.18	0.18	0.18	0.25
Hungary	0.19	0.19	0.20	0.20	0.20	0.22	0.25
Romania	0.25	0.22	0.22	0.19	0.17	0.10	0.08
Bulgaria	0.04	0.04	0.04	0.04	0.04	0.04	0.04
USSR	1.65	1.33	1.23	1.11	1.12	1.14	1.17
Total imports of DMEC ($ b.)	1 389.2	1 554.4	1 830.3	2 073	2 243 1	2 577.7	2 599.4
Destination	Share in developed countries' exports (in per cent)						
Poland	0.24	0.23	0.23	0.25	0.29	0.31	0.50
CSFR	0.17	0.19	0.19	0.18	0.17	0.20	0.25
Hungary	0.22	0.24	0.22	0.20	0.22	0.22	0.26
Romania	0.11	0.11	0.07	0.06	0.06	0.10	0.09
Bulgaria	0.15	0.15	0.13	0.12	0.11	0.06	0.06
USSR	1.66	1.40	1.19	1.24	1.32	1.09	1.11
Total exports of DMEC ($ b.)	1 258.4	1 460.0	1 722.0	1 970.3	2 113.3	2 426.1	2 488.6

Source: COMTRADE, UN Statistical Office.

Table 7

EC imports from Poland, 1985, 1989 and 1992, shares and growth rates, ecu million and per cent

	1985	1989	1992	1989/ 1985	1991/ 1989	1992/ 1991
Total, ecu million/ per cent	2 148.6	2 842.0	5 983.8	7.2	32.3	20.3
Extract, prep of metal ores	1.2	0.1	0.4	-38.4	84.4	75.6
Prod, prelim proc metals	18.6	17.9	15.9	6.2	25.1	19.5
Extract, non-metal minerals	0.2	0.1	0.9	-6.4	163.5	98.8
Manuf non-metal mineral products	2.0	2.7	3.5	15.8	54.9	11.9
Chemicals	15.7	10.2	8.5	-3.8	41.5	-12.2
Artificial fibres	0.5	0.3	0.4	-4.2	35.7	51.5
Metal articles excl. 32-37	2.7	4.1	6.6	18.8	59.6	33.4
Mechanical engineering	3.4	5.2	4.6	19.3	34.5	2.7
Office mach. data-proc equipment	0.0	0.0	0.1	3.7	61.7	23.5
Electrical engineering	3.2	5.3	4.1	21.4	14.2	25.4
Motor vehicles, parts	4.3	4.5	4.4	8.5	-21.9	236.2
Other means of transport	3.6	1.3	1.5	-16.7	34.7	29.5
Instrument engineering	0.3	0.4	0.3	9.7	34.7	1.5
Food, drink and tobacco	16.7	17.5	10.5	8.5	14.0	-3.2
Textiles	3.3	3.0	3.5	4.3	40.6	26.5
Leather goods ex shoes/clothes	0.4	0.6	1.0	22.4	59.8	26.5
Footwear, clothing	12.1	13.1	17.0	9.5	47.3	25.7
Timber, wooden furniture	7.8	9.0	11.6	11.2	44.4	30.1
Paper and products, printing	1.4	1.4	1.6	7.3	31.0	44.4
Rubber, plastics	0.9	1.3	1.6	16.8	34.5	43.1
Other manufacturing	1.7	2.1	2.4	12.2	32.8	34.6

Source: Eurostat, NACE data bank.

Table 8

EC imports from Czechoslovakia, 1985, 1989 and 1992, shares and growth rates, ecu million per cent

	1985	1989	1992	1989/ 1985	1991/ 1989	1992/ 1991
	Percentage shares			Average growth rates		
Total, ecu million	1 875.0	2 227.7	5 102.0	4.4	28.5	38.7
Extract, preparation of metal ores	0.2	0.4	0.1	26.0	-26.4	-10.8
Prod. prelim proc metals	14.0	14.0	13.7	5.4	20.6	40.1
Extract, non-metal minerals	1.6	1.6	1.2	4.3	11.9	35.3
Manuf non-metal mineral products	6.6	6.6	8.0	5.1	36.7	43.2
Chemicals	14.6	13.4	9.6	2.2	24.7	5.9
Artificial fibres	1.4	1.0	1.0	-3.3	27.8	41.4
Metal articles excluding 32-37	2.2	2.4	7.0	7.4	87.9	89.1
Mechanical engineering	7.9	7.8	7.9	4.3	37.6	22.3
Office machinery, data-processing equipment	0.1	0.1	0.4	21.9	51.3	255.3
Electrical engineering	3.1	3.5	5.8	7.6	49.6	70.7
Motor vehicles, parts	3.4	4.7	7.4	13.6	53.9	53.0
Other means of transport	0.5	0.6	1.2	9.4	132.2	-21.6
Instrument engineering	0.5	0.4	0.5	-1.1	41.1	55.6
Food, drink and tobacco	5.7	6.9	2.7	9.4	-3.2	-3.2
Textiles	7.3	5.6	5.8	-2.1	31.0	36.8
Leather goods, excluding shoes/clothes	1.1	0.8	1.1	-2.1	41.4	55.7
Footwear, clothing	7.3	6.8	9.5	2.5	46.4	49.6
Timber, wooden furniture	10.5	9.4	6.7	1.5	6.7	42.7
Paper and pdts, printing	6.0	6.4	4.0	5.9	3.9	31.9
Rubber, plastics	2.7	3.1	3.1	7.8	24.9	49.0
Other manufacturing	3.3	3.5	3.3	5.9	17.4	56.8

Source: Eurostat, NACE data bank.

Table 9

EC imports from Hungary, 1985, 1989 and 1992, shares and growth rates, ecu million per cent

	1985	1989	1992	1989/ 1985	1991/ 1989	1992/ 1991
	Percentage shares			Average growth rates		
Total, ecu million	1 616.1	2 181.8	3 553.8	7.8	19.9	13.3
Extract, preparation of metal ores	0.0	0.1	0.1	62.3	-50.4	352.3
Prod. prelim proc metals	8.6	10.8	6.5	14.0	-3.2	4.9
Extract, non-metal minerals	0.1	0.1	0.1	19.2	16.8	-15.9
Manuf non-metal mineral products	2.1	2.2	2.6	9.1	33.0	8.9
Chemicals	17.0	11.9	10.8	-1.5	17.8	6.4
Artificial fibres	0.3	0.5	0.4	22.8	21.0	0.8
Metal articles excluding 32-37	2.3	3.1	5.1	16.1	46.8	22.3
Mechanical engineering	5.4	6.4	7.3	12.5	39.2	-3.6
Office machinery, data-processing equipment	0.3	0.2	0.6	-4.8	36.6	212.6
Electrical engineering	6.6	7.6	11.1	11.7	32.4	35.2
Motor vehicles, parts	0.4	1.0	3.3	31.6	54.8	131.3
Other means of transport	0.5	0.2	0.2	-15.6	102.9	-48.4
Instrument engineering	0.6	0.4	0.7	-3.0	46.7	47.4
Food, drink and tobacco	25.0	22.7	15.5	5.2	9.7	-7.2
Textiles	5.5	5.3	5.7	7.0	24.7	12.3
Leather goods, excluding shoes/clothes	1.3	1.5	1.3	11.8	17.4	4.1
Footwear, clothing	15.0	15.7	13.6	9.1	46.4	49.6
Timber, wooden furniture	3.7	3.9	4.7	9.2	27.7	18.5
Paper and pdts, printing	0.7	1.1	1.2	19.9	19.8	26.0
Rubber, plastics	2.1	2.8	2.8	15.6	19.2	13.9
Other manufacturing	2.5	2.5	2.1	8.4	2.8	27.0

Source: Eurostat, NACE data bank.

Table 10

EC imports from Bulgaria, 1985, 1989 and 1992, shares and growth rates, ecu million per cent

	1985	1989	1992	1989/ 1985	1991/ 1989	1992/ 1991
	Percentage shares			Average growth rates		
Total, ecu million	3 61.6	398.2	762.1	2.4	22.7	27.1
Extract, preparation of metal ores	0.1	0.6	0.1	83.5	-4.9	-60.5
Prod. prelim proc metals	23.6	16.7	15.3	-6.0	22.8	16.1
Extract, non-metal minerals	0.2	0.4	0.5	17.2	17.1	77.3
Manuf non-metal mineral products	0.7	1.6	2.8	28.2	27.1	107.8
Chemicals	19.0	17.1	11.2	-0.2	12.4	-1.0
Artificial fibres	2.5	0.4	0.7	-36.5	-4.4	291.9
Metal articles excluding 32-37	0.8	1.5	2.0	21.0	39.0	35.8
Mechanical engineering	6.0	9.4	6.0	14.5	7.2	7.2
Office machinery, data-processing equipment	0.5	0.7	0.4	9.0	17.4	-20.0
Electrical engineering	2.9	5.1	4.7	17.6	26.1	11.1
Motor vehicles, parts	0.2	0.4	0.6	15.9	1.2	162.1
Other means of transport	0.0	0.3	0.3	268.0	318.4	-89.3
Instrument engineering	0.2	0.6	0.4	43.3	-14.3	51.6
Food, drink and tobacco	12.1	14.5	9.7	7.2	14.0	-1.7
Textiles	8.3	8.1	8.6	-5.2	26.6	68.6
Leather goods, excluding shoes/clothes	0.8	0.9	1.9	7.1	60.4	56.3
Footwear, clothing	11.5	9.6	22.6	-2.0	52.8	93.2
Timber, wooden furniture	4.6	3.4	3.8	-4.8	39.2	10.3
Paper and pdts, printing	0.8	3.9	1.8	52.0	-15.5	25.2
Rubber, plastics	0.8	2.1	2.8	28.9	23.5	64.0
Other manufacturing	4.5	4.7	3.8	3.3	-1.4	59.9

Source: Eurostat, NACE data bank.

Table 11

EC imports from Romania, 1985, 1989 and 1992, shares and growth rates, ecu million per cent

	1985	1989	1992	1989/ 1985	1991/ 1989	1992/ 1991
	Percentage shares			Average growth rates		
Total, ecu million	1 530.4	1 653.3	1 333.9	2.0	-14.5	10.3
Extract, preparation of metal ores	0.0	0.0	0.0	...	...	...
Prod. prelim proc metals	11.8	16.7	9.0	11.3	-37.6	12.3
Extract, non-metal minerals	0.0	0.0	0.0	-33.3	115.5	170.8
Manuf non-metal mineral products	1.8	4.1	5.3	25.5	13.1	-18.5
Chemicals	11.0	7.0	5.9	-9.1	-20.0	6.0
Artificial fibres	2.6	1.6	0.9	-9.4	-36.8	17.2
Metal articles excluding 32-37	2.7	3.4	2.9	8.6	-16.0	-3.3
Mechanical engineering	2.8	3.3	3.6	6.8	-1.2	-10.2
Office machinery, data-processing equipment	0.0	0.0	0.0	-12.6	-79.6	-78.2
Electrical engineering	2.3	3.3	3.1	11.5	2.4	-20.5
Motor vehicles, parts	4.7	2.0	1.0	-17.7	-39.0	5.2
Other means of transport	0.5	0.2	1.4	-21.8	-119.8	46.5
Instrument engineering	0.2	0.2	0.2	-0.7	-17.5	29.8
Food, drink and tobacco	3.8	4.3	2.9	4.9	-25.7	-2.6
Textiles	9.7	6.4	8.3	-8.0	-2.2	9.8
Leather goods, excluding shoes/clothes	1.0	0.4	0.5	-17.4	-16.7	32.8
Footwear, clothing	22.7	21.4	33.5	0.5	-4.4	38.0
Timber, wooden furniture	18.5	22.4	18.9	6.9	-16.7	-1.9
Paper and pdts, printing	1.9	1.5	0.3	-4.7	-52.7	-28.3
Rubber, plastics	1.5	1.3	1.4	-0.5	-29.0	63.8
Other manufacturing	0.7	0.6	1.0	-4.0	0.5	38.5

Source: Eurostat, NACE data bank.

Table 12

EC imports from FSU, 1985, 1989 and 1992, shares and growth rates, ecu million per cent

	1985	1989	1992	1989/ 1985	1991/ 1989	1992/ 1991
	Percentage shares			Average growth rates		
Total, ecu million	2 881.9	5 068.1	5 536.1	15.2	5.9	-2.6
Extract, preparation of metal ores	0.1	0.5	0.4	63.1	-12.9	5.9
Prod. prelim proc metals	19.0	35.8	41.8	34.9	11.8	0.6
Extract, non-metal minerals	1.3	0.6	0.7	-3.2	11.2	-3.4
Manuf non-metal mineral products	0.2	0.2	0.3	9.1	-14.5	153.0
Chemicals	19.7	12.5	12.2	2.9	2.4	1.2
Artificial fibres	0.3	1.0	0.4	-11.1	8.3	243.5
Metal articles excluding 32-37	0.5	0.1	1.2	19.1	35.9	19.9
Mechanical engineering	2.4	0.6	1.6	9.3	3.8	-17.0
Office machinery, data-processing equipment	0.1	2.0	0.1	28.3	-0.3	13.9
Electrical engineering	1.6	0.1	1.8	9.0	19.6	9.5
Motor vehicles, parts	6.0	1.2	6.3	15.3	15.0	-14.5
Other means of transport	0.8	6.1	2.2	-5.4	320.6	-62.4
Instrument engineering	0.5	0.4	0.3	14.3	-12.8	-7.8
Food, drink and tobacco	4.4	0.5	5.4	16.9	-2.4	32.4
Textiles	1.9	4.7	1.4	16.2	-16.0	10.6
Leather goods, excluding shoes/clothes	0.1	1.9	0.55	56.1	56.0	16.7
Footwear, clothing	0.3	0.2	1.9	17.5	65.7	142.2
Timber, wooden furniture	17.9	0.3	8.8	11.5	-10.9	-22.9
Paper and pdts, printing	2.9	16.7	2.6	25.5	-24.7	20.0
Rubber, plastics	0.2	4.1	0.2	2.8	5.2	47.4
Other manufacturing	19.9	12.4	10.7	2.3	-6.3	7.4

Source: Eurostat, NACE data bank.

Table 13

EC imports from CEECT, 1985, 1989 and 1992, shares and growth rates, ecu million per cent

	1985	1989	1992	1989/1985	1991/1989	1992/1991
	Percentage shares			Average growth rates		
Total, ecu million	10 413.6	14 371.4	22 271.4	8.4	15.8	155
Extract, preparation of metal ores	0.3	0.3	0.2	6.3	3.2	108
Prod. prelim proc metals	15.6	22.5	19.8	18.9	10.9	108
Extract, non-metal minerals	0.7	0.5	0.7	0.5	24.0	362
Manuf non-metal mineral products	2.3	2.5	3.7	11.0	35.2	238
Chemicals	16.2	11.6	9.9	-0.4	15.7	-04
Artificial fibres	0.9	0.5	0.6	-6.4	7.0	506
Metal articles excluding 32-37	1.9	2.3	4.7	14.2	49.6	425
Mechanical engineering	4.2	4.5	5.0	10.3	28.0	47
Office machinery, data-processing equipment	0.1	0.1	0.2	8.7	28.6	1169
Electrical engineering	3.1	3.7	5.0	13.2	25.4	331
Motor vehicles, parts	3.9	4.2	5.1	9.9	15.6	412
Other means of transport	1.2	0.5	1.3	-11.2	159.3	-427
Instrument engineering	0.4	0.4	0.4	7.1	15.5	240
Food, drink and tobacco	10.6	10.5	7.8	8.3	6.9	01
Textiles	5.1	3.9	4.3	1.2	18.0	245
Leather goods, excluding shoes/clothes	0.7	0.6	0.9	6.9	36.1	274
Footwear, clothing	9.9	8.9	9.9	5.3	11.6	400
Timber, wooden furniture	11.9	12.0	8.8	8.7	2.7	77
Paper and pdts, printing	2.6	3.2	2.3	13.8		
Rubber, plastics	1.3	1.4	1.8	10.6	-7.2	289
Other manufacturing	7.1	5.9	4.6	3.5	19.6	384
					0.1	198

Source: Eurostat, NACE data bank.

Table 14

Poland: trade with the developing countries and territories, principal partners and value of imports, 1980 and 1991

Exports				Imports			
1988		1991		1988		1991	
Country	Value	Country	Value	Country	Value	Country	Value
Fm. Yugoslavia	378	Fm. Yugoslavia	409	Fm. Yugoslavia	409	Iran	422
China	334	Brazil	120	China	318	Fm. Yugoslavia	197
Libya	215	Turkey	110	Brazil	261	Korea Rep.	164
Brazil	157	Cyprus	85	India	146	Singapore	152
Turkey	107	Singapore	81	Iraq	94	Hong Kong	124
India	59	Iran	79	Turkey	57	Thailand	114
Singapore	52	Libya	74	Morocco	36	Saudi Arabia	105
Lebanon	43	Morocco	55	Korea DPR	25	Turkey	89
Egypt	43	Egypt	54	Cuba	23	India	71
Morocco	42	India	52	Argentina	22	China	43
Iran	42	China	40	Viet Nam	21	Brazil	34

Source: COMTRADE, UN Statistical Office.

Table 15

Poland: commodity imports from developing countries, 1988/1991; largest supplier countries by SITC, $US'000

SITC	1988		1991	
0	Brazil	153 367	India	27 048
	India	72 787	Turkey	23 324
	China	67 868	Indonesia	22 474
	Fm. Yugoslavia	13 591	Fm. Yugoslavia	16 150
	Uruguay	8 958	Ivory Coast	8 749
	Turkey	8 842	China	5 464
1	Fm. Yugoslavia	7 767	Brazil	8 079
	Turkey	4 088	Turkey	6 269
	Cuba	1 677	Fm. Yugoslavia	5 578
2	Brazil	80 137	Brazil	20 477
	China	39 322	Turkey	13 967
	Morocco	35 992	Venezuela	13 171
	Turkey	31 029	India	8 522
	Jordan	16 718	Morocco	6 920
	Togo	12 328	Fm. Yugoslavia	6 309

SITC classification:

0: Food and live animals.
1: Beverages and tobacco.
2: Crude materials, inedible, except mineral fuels.

Table 16

Hungary: trade with the developing countries, principal partners and value of imports, 1988 and 1991, (value in million of dollars

Exports				Imports			
1988		1991		1988		1991	
Country	Value	Country	Value	Country	Value	Country	Value
Fm. Yugoslavia	276	Fm. Yugoslavia	373	Fm. Yugoslavia	273	Algeria	133
China	186	Iran	225	Brazil	162	Fm. Yugoslavia	127
Turkey	102	Turkey	114	China	158	Brazil	115
Iran	97	India	72	India	59	India	75
Syria	71	Egypt	56	Morocco	43	Libya	72
Algeria	62	Saudi Arabia	29	Indonesia	41	China	42
Egypt	57	Lebanon	29	Iran	37	Singapore	40
Cuba	53	Pakistan	28	Turkey	30	Iran	39
Korea DPR	43	Philippines	27	Peru	29	Turkey	36
Lebanon	42	Cuba	24	Korea Rep.	23	Indonesia	33
Saudi Arabia	41	Ecuador	23	Chile	23	Saudi Arabia	32

Source: COMTRADE, UN Statistical Office.

Table 17

Poland and Hungary manufactured imports from developing countries and territories: largest exporters and value of imports, 1985, 1988 and 1991, $US'000.

SITC	1985		1988		1991	
		Value		Value		Value
Poland						
5	China	5 755	Fm. Yugos	64 791	Fm. Yugos	36 371
	Argentina	1 602	China	26 192	Turkey	6 277
	Korea DPR.	1 406	India	7 526	India	3 420
6	Fm. Yugos	140 470	Fm. Yugos	101 614	UAE	22 514
	China	49 543	China	71 743	Fm. Yugos	16 060
	Brazil	27 075	India	30 273	Korea Rep.	8 870
7	Fm. Yugos	52 757	China	151 702	Singapore	123 276
	Argentina	37 439	Fm. Yugos	24 368	Korea Rep.	121 927
	Korea DPR	12 878	India	17 270	Fm. Yugos	87 468
8	Fm. Yugos	52 757	China	83 126	Thailand	96 219
	China	37 439	Fm. Yugos	50 464	Hong Kong	81 748
	Hong Kong	12 878	India	13 073	Turkey	28 880
Hungary						
5	Fm. Yugos	42 216	Fm. Yugos	32 246	Fm. Yugos	21 524
	China	11 667	Morocco	35 440	India	3 689
	Cuba	6 087	China	12 330	China	3 292
6	Fm. Yugos	44 638	Fm. Yugos	49 682	Fm. Yugos	30 665
	Brazil	28 566	China	40 778	Korea Rep.	13 868
	China	12 270	Korea Rep.	13 217	India	9 393
7	Fm. Yugos	63 486	Fm. Yugos	100 119	Korea rep.	49 530
	Singapore	3 745	China	25 462	Asia NES	37217
	Hong Kong	3 314	Turkey	9 113	Fm. Yugos	29 529
8	Fm. Yugos	38 008	China	44 919	China	25 143
	China	29 820	Fm. Yugos	27 261	India	21 830
	Hong Kong	9 908	India	7 480	Asia NES	15 950

SITC classification:

5: Chemicals and related products.
6: Manufactured goods classified chiefly by material.
7: Machinery and transport equipment.
8: Miscellaneous manufactures.

Source: COMTRADE, UN Statistical Office.

Table 18

Former Soviet Union: geographic structure of imports by republic, 1990, $US billion and percentage

	FSU	Russia	Ukraine	Belarus	Moldova	Kazakh.	Armenia	Azerb.	Georgia	Kyrgy.	Tajik.	Turk.	Uzbek.	Estonia	Latvia	Lith.
Total $US bn.	121.0	70.1	16.6	8.5	1.8	4.1	1.5	2.1	3.9	1.4	1.2	1.0	3.4	1.2	2.2	2.1
Per cent of total FSU imports	100.0	57.9	13.7	7.0	1.5	3.4	1.2	1.8	3.3	1.1	1.0	0.8	2.8	1.0	1.8	1.7
Per cent of FSU or rep. imports from:																
CE-6 + Yugos	40.7	38.7	46.3	47.3	48.0	39.7	38.3	37.7	41.3	38.4	36.2	35.9	41.7	32.5	42.9	44.7
DMEs	39.7	39.7	39.4	37.3	35.5	39.6	39.1	38.3	40.3	42.7	43.2	42.4	40.3	51.0	42.7	40.3
DCs	19.6	21.7	14.2	15.4	16.4	20.8	22.6	24.0	18.4	19.0	22.6	21.7	18.0	16.4	14.4	15.0
Africa	1.2	1.5	1.2	0.8	0.8	0.5	0.7	0.5	0.8	0.4	0.4	0.6	0.4	0.9	0.6	9.6
Asia	11.8	12.8	8.6	7.8	10.2	15.2	13.4	16.9	11.4	13.0	14.9	17.0	12.0	7.8	6.7	7.1
China	2.3	2.4	1.6	1.7	1.8	5.3	2.8	2.3	1.5	3.8	3.8	4.9	4.4	2.8	0.9	0.8
Korea DPR	0.9	0.7	0.7	0.6	1.4	2.7	0.9	1.3	1.3	1.1	1.9	0.9	1.8	0.6	0.7	0.6
India	2.9	3.1	2.9	2.2	1.0	2.0	2.9	4.6	2.1	3.2	2.5	5.7	1.5	1.2	2.2	3.0
Syrian Arab Republic	1.1	1.1	0.8	0.5	4.2	1.1	1.2	1.9	3.3	0.5	0.4	1.1	0.4	0.4	0.8	...
Viet Nam	1.0	1.1	0.7	1.0	0.2	1.4	1.1	1.4	0.6	1.1	1.1	1.1	1.0	0.4	0.6	1.1
Lat. America	6.2	6.8	4.1	6.6	4.6	5.1	7.0	6.2	5.6	3.7	5.6	3.0	5.7	7.4	6.4	6.7
Cuba	5.2	5.7	3.4	5.7	4.4	4.8	6.0	5.4	5.0	3.3	5.3	2.8	4.9	5.9	5.4	5.6
Other DCs	0.4	0.5	0.3	0.2	0.8	...	1.5	0.4	0.6	1.9	1.7	1.2	..	0.4	0.7	0.6
Total	100.0	100.0	100.0	100.0	100.0	100.0	100.0	100.0	100.0	100.0	100.0	100.0	100.0	100.0	100.0	100.0

Source: Le Courrier des pays de l'Est, No. 373, Oct. 1992.

Table 19

Former Soviet Union: commodity structure of imports by republic, 1991, percentage

	RF	Ukraine	Belarus	Moldov.	Kazakh.	Armenia	Azerbai.	Georgia	Kyrgyz.	Tajik.	Turkm.	Uzbek.
Animal pdts.	3.5	0.6	0.1	0.5	2.5	0.6	10.5	1.2	0.0	0.0	0.0	2.8
Vegetable pdts.	13.1	1.7	2.8	3.3	1.6	0.0	0.0	4.2	0.0	1.6	5.3	10.0
Oils and fats	0.4	0.4	0.1	0.0	0.0	0.0	1.3	0.1	0.0	0.0	0.0	0.0
Manuf. food	10.9	1.2	4.6	7.6	6.8	0.1	1.2	11.9	1.9	0.0	4.7	1.8
Minerals and fuels	3.0	1.1	0.8	0.7	9.1	0.0	6.0	0.0	0.0	0.0	0.0	0.5
Chemicals	9.8	9.8	11.8	5.0	3.2	0.9	3.1	4.5	2.4	31.7	1.2	7.4
Plastic/ rubber gds.	3.4	2.6	3.3	7.4	0.8	0.6	1.0	0.1	1.7	1.5	17.2	2.4
Leather gds.	1.0	1.9	0.2	1.3	1.4	0.0	0.2	1.7	1.1	2.0	0.9	4.0
Wood/wooden gds	0.1	0.1	0.3	0.3	0.2	0.2	0.0	0.0	0.0	0.0	0.1	0.0
Pulp and paper	1.0	1.3	0.7	3.1	0.6	0.0	0.4	0.7	0.4	0.0	0.1	0.4
Textiles/ garments	7.5	13.7	8.7	12.1	19.4	2.4	29.1	7.6	9.3	16.2	25.0	31.0
Footwear	2.3	4.4	2.5	1.4	3.8	0.2	1.1	2.2	7.2	0.2	2.4	0.5
Stone/clay/ glass gds.	0.5	1.1	1.4	8.2	0.5	0.2	0.0	1.4	0.0	0.0	0.2	0.5
Precious stones/mets	0.0	0.2	0.3	0.0	0.0	0.0	0.3	0.0	0.0	0.0	0.1	0.1
Metals/meta. arts.	6.2	2.0	2.3	2.4	0.8	1.8	0.4	0.9	0.2	4.7	6.2	4.2
Machinery and eqpt.	26.4	38.3	44.4	39.2	32.6	11.5	40.1	40.4	72.5	20.2	29.7	20.4
Vehicles/ transport gds	7.1	11.6	6.0	5.1	4.8	0.2	1.1	9.2	1.9	14.8	1.7	3.7
Instruments	2.1	5.3	6.8	1.3	7.8	0.7	4.1	5.5	1.7	5.4	5.3	9.7
Other	1.7	2.8	3.3	1.2	4.1	80.5	0.3	8.4	0.0	1.8	0.0	0.5
Total	100.0	100.0	100.0	100.0	100.0	100.0	100.0	100.0	100.0	100.0	100.0	100.0

Source: Le Courrier des Pays de l'Est, No. 373, Oct. 1992.

Table 20

Twenty largest exporters to CEC and Fm. USSR and hypothetical imports of comparator EC countries, $US million, 1991

TO CEC:	Actual imports	Hypothetical imports	TO: USSR	Actual imports	Hypothetical imports
FROM:			FROM:		
Yugoslavia	914	777	India	1 806	5 381
Iran, Islam Rep.	981	2 870	Yugoslavia	2 686	1 100
Thailand	137	911	China	2 046	8 462
Brazil	285	2 487	Syrian Arab Rep.	768	336
Korea Republic	143	1 523	Afghanistan	716	n.a.
China	333	2 055	Argentina	247	4 543
Libyan Arab Jamah.	260	3 047	Brazil	95	6 647
Hong Kong	141	643	Singapore	357	2 134
Egypt	280	963	Korea Republic	688	5 383
India	214	637	Hong Kong	217	2 293
Saudi Arabia	368	2 475	Côte d'Ivoire	41	1 112
Singapore	241	638	Egypt	255	2 232
Algeria	134	1 912	Thailand	81	3 142
Argentina	112	1 367	Malaysia	89	2 018
Taiwan, Prov. China	72	1 992	Pakistan	77	999
Syrian Arab Rep.	124	141	Taiwan, Prov. China	72	7 804
Pakistan	63	334	Ghana	57	158
Indonesia	89	462	Uruguay	55	n.a.
Peru	47	99	Sri Lanka	49	n.a.
Total	4 938	25 331		10 465	53 744

Source: OECD, Trade by commodities, 1991; IMF, Direction of Trade Statistics, 1991. For methodology, see text.

Table 21

Twenty largest exporters to CEC and Fm. USSR and hypothetical imports of comparator EC countries, $US million, 1991

TO CEC:	Actual imports	Hypothetical imports	TO: USSR	Actual imports	Hypothetical imports
FROM:			FROM:		
Yugoslavia	914	2 745	India	1 806	5 155
Iran, Islam Rep.	981	2 368	Yugoslavia	2 686	8 182
Thailand	157	1 829	China	2 046	14 956
Brazil	285	3 391	Syrian Arab Rep.	768	1 474
Korea Republic	143	2 914	Afghanistan	716	n.a.
China	333	5 018	Argentina	247	4 116
Libyan Arab Jamah.	260	2 940	Brazil	95	10 105
Hong Kong	141	3 081	Singapore	357	6 314
Egypt	280	804	Korea Republic	688	8 683
India	214	1 730	Hong Kong	217	9 183
Saudi Arabia	368	3 948	Côte d'Ivoire	41	1 707
Singapore	241	2 119	Egypt	255	2 395
Algeria	134	2 733	Thailand	81	5 452
Argentina	172	1 381	Malaysia	89	5 144
Taiwan, Prov. China	72	4 073	Pakistan	77	1 734
Syrian Arab Rep.	124	495	Taiwan, Prov. China	72	12 138
Pakistan	63	582	Mauritania	63	n.a.
Indonesia	89	1 278	Ghana	57	516
Peru	47	298	Uruguay	55	n.a.
			Sri Lanka	49	n.a.
Total	4 988	43 726		10 465	97 256

Source: OECD, Trade by commodities, 1991; IMF, Direction of Trade Statistics, yearbook 1993. For methodology, see text.

Table 22

Principal developing country exports affected by the Europe Agreements
1989 export values in $US

Tariff line	Product	EC imports, total	CEC	DC	CEC QR advantage	Main DC suppliers
28414100	Anhydrous ammonia	114	5	84	yes	Trinidad/Tobago, Qatar, Nigeria
29025000	Styrene	113	3	77	yes	Brazil, Argentina
29051100	Methanol	282	15	205	yes	Saudi Arabia, Bahrain, Malaysia
39031900	Polystyrene	90	6	21	no	Mexico, Venezuela
44121200	Plywood	224	7	69	yes	Indonesia, Brazil, Malaysia, Singapore
69089011/69089099	Glazed ceramic tiles	64	13	39	yes	Korea Republic, Brazil, Turkey
69111000	Table/kitchen-ware of porcel.	141	21	60	yes	China, Thailand
72011011/72011090	Pig iron	211	4	82	no	Algeria, Brazil, Egypt
72023000	Ferro-silicon-manganese	143	6	11	no[a]	Brazil, Yugoslavia (Fm.)
72082299/72101290	Flat-rolled products	724	215	107	no[a]	Algeria, Brazil, Egypt
72163100	U steel sections	81	43	18	no[a]	Yugoslavia (Fm.), Turkey, Mexico
72163200	I steel sections	88	37	22	no[a]	Yugoslavia (Fm.), Turkey, Mexico

Table 22 (continued)

Principal developing country exports affected by the Europe Agreements 1989 export values in $US						
Tariff line	**Product**	**EC imports, total**	**CEC**	**DC**	**CEC QR advantage**	**Main DC suppliers**
76011000	Unwrought aluminium	1 794	36	729	no	Ghana, Egypt, Cameroon
87032210	Automobiles 100-1500 cc	2 616	72	407	no	Brazil, Korea Republic, Yugoslavia (Fm.)
87043191	Trucks, gas-powered, < 5t.	347	14	76	no	Brazil, Yugoslavia (Fm.) Korea Republic
92111010	Pianos	106	9	40	no	Korea Republic, China
a: "Voluntary" export restraints (and often anti-dumping duties) on major DC suppliers.						

Source: UNCTAD TRAILS data bank.

Table 23

Summary of utilisation of EC, Japanese and United States GSP Schemes by CEECT, 1991. $US million

	Total	Dutiable	Covered	Receiving	Rec/Cov %
EC scheme					
Bulgaria	915	760	385	102	26.5
CSFR (Fm.)	4 927	4 913	2 944	1 195	40.6
Hungary	4 421	3 984	2 532	1 157	45.7
Poland	7 449	6 311	3 699	1 793	48.5
USSR (Fm.)[a]	21 633	14 451	8 848	4 175	47.2
Sub-total	39 345	30 419	18 408	8 422	45.8
All beneficiaries	156 895	104 850	64 204	30 208	47.1
CEECT as % all	25.1	29.0	28.7	27.9	
USA scheme					
Bulgaria[a]	61	47	17	7	41.2
CSFR (Fm.)	144	126	60	36	60.0
Hungary	367	307	184	154	83.7
Poland	351	289	163	138	84.7
USSR (Fm.)[a]	900	694	252	128	50.8
Sub-total	1 823	1 463	676	463	68.5
All beneficiaries	95 970	74 039	26 907	13 675	50.8
CEECT as % all	1.9	2.0	2.5	3.4	
Japanese scheme					
Bulgaria	50	42	19	15	78.9
CSFR (Fm.)	126	81	29	14	48.3
Hungary	141	118	102	74	72.5
Poland	183	144	81	58	71.6
USSR (Fm.)[a]	3 317	2 143	760	362	47.6
Sub-total	3 817	2 528	991	523	52.8
All beneficiaries	110 970	71 735	24 415	12 078	49.5
CEECT as % all	3.4	3.5	4.1	4.3	
Total, three schemes					
Bulgaria[a]	1 026	849	421	124	29.5
CSFR (Fm.)	5 197	5 120	3 033	1 245	41.0
Hungary	4 929	4 409	2 818	1 385	49.1
Poland	7 983	6 744	3 943	1 989	50.4
USSR (Fm.)[a]	25 850	17 288	9 860	4 665	47.3
Sub-total	44 985	34 410	20 075	9 408	46.9
All beneficiaries	363 835	250 624	115 526	55 961	48.4
CEECT as % all	12.4	13.7	17.4	16.8	

a: Estimated on basis of shares of dutiable, covered and GSP-receiving imports in total imports from all beneficiaries under each scheme.

Source: replies from preference-giving countries except as [a] above.

Table 24

EU GSP, coverage and benefiting ratios, 1990 and 1991

Category	1990					1991				
	Total	Dutiable	Covered	Receiving	Rec/Cov	Total	Dutiable	Covered	Receiving	Rec/Cov
	Exports to EU in $US thousand				%	Exports to EU in $US thousand				%
Bulgaria										
Sensitive						86 625		86 604	27 367	31.6
MFA textiles						135 827		133 810	23 425	17.5
Agric. pdts.	193 401	175 657	No GSP	No GSP		237 603	206 983	17 592	2 752	15.6
Indust. pdts.	520 940	415 187	No GSP	No GSP		677 174	553 374	367 803	99 713	27.1
All products	714 340	590 844	No GSP	No GSP		914 777	760 358	385 395	102 465	26.6
Fm. CSFR										
Sensitive						892 621		892 511	357 707	40.1
MFA textiles						567 399		557 594	75 475	13.5
Agric. pdts.	265 103	241 829	No GSP	No GSP		306 488	264 561	71 082	44 179	62.2
Indust. pdts.	3 074 543	2 589 784	No GSP	No GSP		4 620 060	4 148 361	2 872 528	1 150 975	40.1
All products	3 339 645	2 831 613	No GSP	No GSP		4 926 548	4 412 922	2 943 610	1 195 154	40.6
Hungary										
Sensitive	527 045		527 017	249 962	47.4	613 387		613 861	291 719	47.5
MFA textiles	552 984		548 754	55 240	10.1	643 073		633 352	71 233	11.2
Agric. pdts.	908 866	775 305	93 940	37 831	40.3	1 139 530	962 547	103 112	62 785	60.9
Indust. pdts.	2 761 858	2 463 647	2 013 792	797 035	39.6	3 281 702	3 021 294	2 429 159	1 094 199	45.0
All products	3 670 724	3 238 952	2 107 732	834 866	39.6	4 421 232	3 983 841	2 532 271	1 156 984	45.7
Poland										
Sensitive	702 732		702 297	290 418	41.4	1 028 478		1 027 893	658 032	64.0
MFA textiles	710 561		708 680	68 149	9.6	1 024 822		1 015 204	100 240	9.9
Agric. pdts.	1 408 100	1 240 022	228 766	119 187	52.1	1 338 544	1 203 365	254 361	154 392	60.7
Indust. pdts.	4 992 060	4 052 675	2 704 474	1 040 357	38.5	6 110 175	5 107 417	3 444 287	1 638 241	47.6
All products	6 400 160	5 292 697	2 933 240	1 159 544	39.5	7 448 719	6 310 782	3 698 648	1 792 633	48.5

Table 24 (continued)

Category	1990					1991				
	Total	Dutiable	Covered	Receiving	Rec/Cov	Total	Dutiable	Covered	Receiving	Rec/Cov
	Exports to EU in $US thousand				%	Exports to EU in $US thousand				%
Romania										
Sensitive	471 960		471 955	385 172	81.6	505 744		505 752	320 475	63.4
MFA textiles	355 853		354 196	7 676	2.2	344 289		341 772	18 270	5.3
Agric. pdts.	51 908	43 010	9 348	4 290	45.9	94 500	81 415	13 057	6 570	50.3
Indust. pdts.	1 976 861	1 941 845	988 197	492 287	49.8	1 700 465	1 665 208	1 057 632	464 999	44.0
All products	2 028 769	1 984 855	997 545	496 577	49.8	1 794 965	1 746 623	1 070 689	471 569	44.0
CEECT Beneficiaries										
Sensitive	1 701 737	0	1 701 269	925 552	54.4	4 019 476		4 019 132	2 013 007	50.1
MFA textiles	1 619 398	0	1 611 630	131 065	8.1	3 282 809		3 239 326	364 118	11.2
Agric. pdts.	3 092 481	2 717 652	332 054	161 308	48.6	3 423 153	2 983 432	530 286	314 857	59.4
Indust. pdts.	16 400 805	14 052 922	5 706 463	2 329 679	40.8	21 009 636	18 644 015	13 043 937	5 599 102	42.9
All products	19 493 283	16 770 574	6 038 517	2 490 987	41.3	24 432 789	21 627 448	13 574 223	5 913 959	43.6
All GSP Beneficiaries, $US million										
Agric. pdts.	33 182	26 133	8 296	3 652	44.0	34 524	27 272	9 194	5 087	55.3
Indust. pdts.	168 870	97 483	52 043	18 955	36.4	176 154	108 192	63 485	25 121	39.6
All products	202 052	123 616	60 339	22 607	37.5	210 678	135 464	72 679	30 208	41.6

Source: EC data supplied to UNCTAD